

SENATE FINANCE COMMITTEE
March 11, 2025
9:01 a.m.

[9:01:17 AM](#)

CALL TO ORDER

Co-Chair Hoffman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Mike Cronk
Senator James Kaufman
Senator Jesse Kiehl
Senator Kelly Merrick

MEMBERS ABSENT

Senator Donny Olson, Co-Chair

ALSO PRESENT

Liz Harpold, Staff, Senator Donny Olson; Deven Mitchell, Executive Director, Alaska Permanent Fund Corporation.

SUMMARY

SJR 14 CONST AM: PERMANENT FUND; POMV; EARNINGS

SJR 14 was HEARD and HELD in committee for further consideration.

Co-Chair Hoffman discussed the agenda.

#sjr14

SENATE JOINT RESOLUTION NO. 14

Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund and to appropriations from the Alaska permanent fund.

[9:02:13 AM](#)

LIZ HARPOLD, STAFF, SENATOR DONNY OLSON, reviewed SJR 14. She explained that the bill proposed a constitutional amendment to limit the draw on the permanent fund and consolidate the two-account structure of the fund into one single account. She recounted that in 2018, SB 26 had established a percentage of market value (POMV) draw from the fund's earnings reserve account. The POMV provided financial stability and predictability to the states financial stream and was the largest source of unrestricted general fund dollars. She stated that SJR 14 would constitutionalize the POMV draw to 25 percent. She explained that consolidating the two accounts would prevent the possibility of overspending the earnings reserve account by structurally turning the fund into a single, endowment style fund.

Ms. Harpold said that the final passage of the resolution would put the question of adopting the resolution to voters in the next general election.

Co-Chair Hoffman commented that the resolution required a two-thirds vote, which signified that it would require 14 votes in the senate and 27 in the house. The vote was a higher standard than a simple bill since it proposed a change to the constitution. Once the threshold was achieved, it was not necessary for the governor to approve the resolution before it went to a ballot.

[9:05:16 AM](#)

DEVEN MITCHELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, discussed a presentation entitled "Modernizing the Alaska Permanent Fund: A Single-Fund Endowment for Predictability & Sustainability - Trustees' Paper Volume 10" (copy on file).

Mr. Mitchell looked at slide 2, "A Legacy of Intergenerational- Resource Contribution." He cited the language in the constitution:

Alaska Constitution Article IX, 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.

He explained that the language "at least" signified the minimum that could be placed and noted that past legislatures had added more. The principal amount derived from the contributions was a little over \$20 billion and was the basis of the fund and earnings since the creation of the fund. He said that the next portion was the principal, which was only used for income-producing investments, specifically designated by law as eligible for permanent fund investments. By statute, there were defined and allowable investments that the corporation invests the fund in. He pointed out that the language implies "income producing investments" and not "statutory income producing investments" because there was a difference between realized and unrealized income. He spoke to the income of the permanent fund being deposited in the general fund unless otherwise provided by law, which allowed for all the earnings to be expended every year. He stressed that only by the forethought of previous legislatures was money saved in the permanent fund in addition to the 25 percent of royalty revenue. He stated that the fund was currently at \$80 billion, with total earnings of over \$100 billion. He noted the success of the public trust that had been reliant on the state investing wisely in the past, as state revenues increased, to sustain the state in perpetuity.

[9:08:57 AM](#)

Mr. Mitchell continued to address slide 2. He said that after the creation of the fund there had been such significant revenue for the state that people had ignored the fund in such a way that allowed for it to grow. He relayed that today the fund was the largest U.S. sovereign wealth fund in the nation that supported most of the unrestricted general fund revenue for the state.

[9:10:04 AM](#)

Senator Merrick asked why the fund was set up as a two-account structure originally, and whether other large funds used the two-account structure.

Mr. Mitchell relayed that in the earnings base model, all the earnings would be designated by the legislature. In the scenario, earnings were volatile like oil revenues, and there had to be some mechanism to maintain a balance of spendable funds. He thought that this had led to the two-account structure - realized earnings spilled over into an earnings reserve account and were available for appropriation on an annual basis. He said that the system had worked up to now, but the state may have reached a place where, for the foreseeable future, a recasting of the framework of the fund was necessary.

[9:11:50 AM](#)

Senator Cronk asked for a monetary number that reflected what the state would see at 25 percent of mineral royalties each year.

Mr. Mitchell relayed that the amount varied with oil price, and in the current year it was approximately \$400 million. He noted that the APFC website showed historical deposits. He mentioned that there had been several years of low revenue when the statutory 25 percent had not been put into the fund, followed by a "make-up year" in which the fund was made whole according to the statutory construct. He said the amount could fall anywhere from \$300 million to \$800 million.

[9:12:56 AM](#)

Mr. Mitchell spoke to slide 3, "Current: Two-Account Structure," which showed a flow chart that illustrated the complexity of the Permanent Fund Structure:

Contributions

Royalties
Special Appropriations
Inflation Proofing

Principal

Alaska Constitution, Article IX, Section 15

Income Producing Investments

Alaska Permanent Fund Corporation
Management and Investment of the Fund
Single Asset Allocation (pro-rata shares)
Stocks, Bonds, Real Estate, Alternatives

Sale and Distribution of Assets

Statutory Net Income AS 37.13.140

Cash Flow Income

Realized gains/losses

Earnings Reserve Account

Alaska Statutes AS 37.13.145(a)

Realized gains/losses from sale of assets

Pro-Rata share of Investments and net unrealized gains

The Principal provides permanent savings to be used only for income-producing investments.

Realized earnings are deposited into the Earnings Reserve Account (ERA) for appropriation by the Legislature.

POMV draws to support the state's current revenue needs and transfers to inflation proof the Principal for an intergenerational benefit are limited to the balance of the ERA.

Mr. Mitchell explained that the revenues flowed into the principal account and within that principal were unrealized and realized gains. The realized gains spilled over into the earnings reserve account, which could grow or shrink based on use and the earnings flowing into the account. He said that manual inflation proofing adjustments were required to be made into the principal and the discipline not to overspend. He said that there was potential of failure if there were insufficient realized earnings to provide for the POMV transfer. He stated that the complexity had worked up until now but failed to recognize the evolution that had occurred within the investment sphere and that the portfolio had been constructed around the total return goal, which included realized and unrealized gains. He related that the board of trustees had suggested simplifying by removing the temptation to overspend and the requirement of inflation proofing by having a regular and reliable source of revenue every year.

[9:15:01 AM](#)

Senator Kaufman asked where the money from sales of assets from the corpus were housed.

Mr. Mitchell thought that the matter of unrealized gains could be confusing because value increased theoretically, but the funds were not spendable. He added that all gains

were theoretical until the asset was sold. He used the example of Tyson's Corner, a mall on the East Coast owned by the Permanent Fund. He explained that there were hundreds of millions of dollars in unrealized gains associated with the investment, but the monies would not be realized until the asset was sold. If sold the monies would be reinvested in the fund and not taken out as a realized investment that would be spent.

Senator Kaufman asked whether the funds would be reinvested in the corpus or the earnings reserve.

Mr. Mitchell explained that realized gains would be put into the earnings reserve account and the initial investment amount would remain in the principal.

Senator Kaufman pondered that the original principal would remain in the corpus and the realized gains would flow into the earnings reserve. He asked what constitutional protections were in place against spending the totality of the earnings reserve in one legislative session.

Mr. Mitchell replied that there were none.

Co-Chair Hoffman commented that depleting the earnings reserve would take a simple majority of both the house and the senate and the signature of the governor.

[9:17:24 AM](#)

Senator Kiehl mused that in an escalating market, the corpus grew, and the earnings reserve grew. He had heard it said that if markets crash, losses could go back from the earnings reserve to reduce the principal. He asked for Mr. Mitchell to discuss how the funds were accounted for.

Mr. Mitchell relayed that currently, unrealized gains were pro rata allocated between the earnings reserve and the principal. If there were to be losses, it would be similarly pro rata allocated and would diminish the amount of unrealized earnings until it exceeded the amount at which time the unrealized gains would diminish the value of the accounts.

Senator Kiehl asked whether those were unrealized gains into the earnings reserve or within the earnings reserve.

Mr. Mitchell clarified that unrealized gains were allocated to the earnings reserve. The APFC website included a component of unrealized gains since there was currently a net unrealized gains situation at the fund. He said that to the extent that money was spent out of the earnings reserve a portion was moved to the principal and unrealized gains would offset the unrealized losses.

Senator Kiehl thought there was a popular assumption that there was an absolute firewall between the ERA and the corpus. He thought the perception of a separation of two funds, and that value only flowed one way, was not the case.

Mr. Mitchell agreed. He noted that the unrealized gains were the categorization of earnings that flowed back and forth and had evolved overtime. He said that previously all unrealized gains and losses lived in the ERA, so swings in value could be seen. There had been an evolution in the process of accounting for the unrealized gains, but they still did not mesh well with the current structure.

[9:21:05 AM](#)

Senator Kiehl asked what the state would lose by managing the funds separately.

Mr. Mitchell thought the difference would constitute a statutory change. He thought that the state would be giving up the difference between the expectation of a short-term investment account versus a long-term investment account.

[9:21:54 AM](#)

Senator Kiehl surmised that Alaskans were getting less return on their investment by managing the funds separately.

Mr. Mitchell agreed.

[9:22:11 AM](#)

Senator Kaufman asked whether any other endowments around the world were managed with the same composition as the Permanent Fund.

Mr. Mitchell was unaware of a similar fund that had a mechanism that relied on earnings for distributions. He thought there was usually a POMV construct, which led to more reliable and stable outflows.

Senator Kaufman thought the issue looked like older approaches to retirement plans. He recalled that bonds used to be popular over the stock market. He said that the idea that the principal could be protected was attractive but was not presently an effective investment model.

Mr. Mitchell thought Senator Kaufman was correct in that the original allocation provided by the legislature worked for the time. He pondered that equities in the 1970s performed austerely. He thought the notion of unrealized earnings being accounted for as they accrued, rather than at the sale of assets, had evolved.

[9:25:25 AM](#)

Co-Chair Hoffman considered 2019, when the legislature was contemplating SB 26. At the time the position of the legislature had been that the ERA was the "third rail of government" and could not be touched. He thought the constitutional amendment was an evolution of how the fund was managed. He said that it was not a question of the sanctity of the ERA but was about managing and protecting the fund.

[9:26:50 AM](#)

Mr. Mitchell thought Co-Chair Hoffman was correct. He mused that to the extent that the resource should exist in perpetuity, for whatever purpose, the shift to the POMV draw should be considered.

[9:28:27 AM](#)

Senator Kiehl thought Mr. Mitchell had raised a red flag. He asked him to explain the notion by which the principal was not the approximately \$80 billion, but as \$58 billion.

Mr. Mitchell replied in the affirmative.

[9:29:00 AM](#)

Mr. Mitchell turned to slide 5, "Comparing Fund Structures," and addressed the breakdown of components in the two-account structure depicted on a pie chart. The pie chart on the left illustrated the current two-account structure. He noted that under the current structure the principal was not protected under the constitution. The chart on the right-hand side showed that \$77 billion would be protected and only the POMV draw would be available for spending.

Senator Kiehl constructed a hypothetical situation in which, under the current structure, a new governor could orchestrate the realization of the entire portfolio and use \$17 billion for whatever they wanted.

Mr. Mitchell answered "yes."

Senator Kiehl thought that the risk was there unless the structure was changed.

[9:31:33 AM](#)

Mr. Mitchell continued to look at slide 5. He thought that moving away from the earnings-based model could imply the grater potential for invading principal, but the opposite was true. He relayed that when the earnings reserve account got so large that it became a temptation, previous legislatures had made significant appropriations into the principal of the to ensure that government did not grow as the result of the potential excess balance. He said that currently there were pressures on the spendable side of the earnings reserve account.

[9:33:03 AM](#)

Mr. Mitchell referenced slide 4, " Proposed: Single-Fund Endowment," which showed a graphical flow chart. He noted the input of royalty contributions and an outflow based on POMV, which took away the risk of an excess appropriation for one generation and ensured that there would be a draw for future generations. He noted that recently he had heard LFD Director Alexei Painter mention that based on modeling there was a 46 percent chance of failure in the POMV transfer in the current construct. He said that this was an unacceptable risk when there were other options.

[9:33:57 AM](#)

Mr. Mitchell considered slide 6, "Alaska's Largest Revenue Source," which showed the historical revenue structure of the state. The right-hand side of the slide showed a graph depicting the state's historical Unrestricted General Fund (UGF) revenues. He stated that the volatility had been addressed through use of the constitutional budget reserve (CBR). He recalled that in 2014, and through 2020, the CBR had been drawn down from \$16 billion to under \$3 billion. He said that the introduction of the POMV transfer from the earnings reserve became a necessity to provide for the continuation of services. He said that the stability that it provided for revenue had been a significant benefit and had made the oil market volatility more manageable.

Mr. Mitchell pointed out the calculation of the POMV draw on the left-hand side of the slide, which he said was predictable.

[9:36:37 AM](#)

Mr. Mitchell displayed slide 7, "Understanding the Two-Account Structure," which showed the principal and the earnings reserve account. He admitted that the APFC was conservative in its structure. He cited \$3.8 billion committed for the FY26 POMV draw for the general fund. He noted the \$1.0 billion committed for FY25 inflation proofing. There was \$2.9 billion in spendable realized earnings as of January 21, 2025, and \$1.7 billion in unrealized gains. He shared that the \$9.4 billion in the ERA was misleading because there was \$2.9 billion in spendable realized earnings, which left a \$5.5 billion need with 5 months left in the fiscal year. There was \$71.4 billion in the principal account, with \$58.6 billion in permanent deposits of royalties, inflation proofing, and special appropriations and \$12.8 billion in unrealized gains.

[9:38:53 AM](#)

Mr. Mitchell highlighted slide 8, "The Need for Reform," which showed a bar graph of the ERA balance at the beginning of each fiscal year from FY 19 through FY 25. He observed that there was a balance of \$12.9 billion at the beginning of the fiscal year 2019. He summarized that spending is limited to the ERA, and the ERA is at risk of depletion given the annual draws to support government services and the dividend program, as well as inflation

proofing the principal for intergenerational Alaskan benefits.

[9:40:44 AM](#)

Mr. Mitchell looked at slide 9, "Proposed: Single-Fund Endowment Model," He explained that the proposal championed by the board would include a constitutionally established spending limit and would strengthen the fund's long-term stability and purchasing power for generations. The plan would merge the principal and the ERA into a single fund, limit annual distributions through a constitutional POMV rule, and ensure automatic inflation proofing by adhering to a long-term sustainable withdrawal rate.

[9:41:38 AM](#)

Mr. Mitchell addressed slide 10, " Benefits of the Single-Fund Model,":

Aligned with global best practices, strengthening Alaska's financial position through sustainable withdrawals & limited to the Fund's long-term real return.

Alignment with Prudent Investor Standards

Follows best fiduciary and prudent practices for endowments and trusts.

Total-Return Investing

Maximizes long-term growth without liquidity constraints.

Predictable & Sustainable Spending

A maximum draw POMV rule prevents overspending.

Automatic Inflation Proofing

Eliminates the need for manual and ad hoc legislative adjustments.

A Single-Fund Endowment is permanently inflation-proofed and ensures the Fund's real value is maintained over time while supporting its intended beneficiaries.

The key principles behind this are:

- Growth in the Fund's value keeps pace with or exceeds inflation.

- A prudent spending rule/limited draw rate ensures sustainability.
- Returns above the draw rate are reinvested.

[9:42:14 AM](#)

Senator Kaufman asked whether the current construct changed the investment strategy to some degree, or inhibited decisions.

Mr. Mitchell relayed that there was no statutory framework for APFC to manage the fund to achieve statutory net income or ensure a POMV transfer to the state. The APFC investment staff had target allocations and sold from well performing asset classes to generate net income. He stated that despite the volatility there had recently been relatively strong statutory net income.

[9:44:10 AM](#)

Mr. Mitchell advanced to slide 11, "Constitutional Amendment," which showed that the Board of Trustees for APFC supported the proposal.

Senator Cronk appreciated the slide because there had been a great deal of rumor and rhetoric that suggested the legislature was trying to "dip into the corpus" and "spend everything." He asked whether the 5 percent number should be lowered to grow the fund.

Mr. Mitchell thought that was a policy decision to be made by the legislature. He believed that the data suggested that 5 percent was a difficult target. He thought if one were to listen to APFC board meetings and external advisors, it was reiterated frequently that 5 percent was a high target. He thought if one wanted to grow the fund a lower target could be advisable.

Senator Cronk wanted to reiterate that the proposal did not limit government spending.

[9:46:55 AM](#)

Senator Kaufman thought it might be good to discuss the 5 percent POMV in an ascending market and a descending market.

Mr. Mitchell explained that the smoothing that was apparent from the averaging of 5 years was intentional. When there was a series of years with increasing principal values in the fund, there would be a draw rate that was less than 5 percent. He reflected that taking various averages would result in varying draws.

[9:49:04 AM](#)

Senator Kaufman thought the impact of the draw rate would be exaggerated because of the sequence of return risks and the state would be drawing on a depreciated asset.

Mr. Mitchell agreed. He said that diversification within the portfolio helped to manage the volatility.

[9:50:31 AM](#)

Mr. Mitchell looked at slide 12, " Trustees' Paper Volume 10," which referenced recommendations made to the board on the fund's structure. The paper had focused on the structure of the fund and highlighted some of the issues being discussed. He explained that Dr. Malan Rietveld was a sovereign wealth fund expert, and the slide contained a quote from Dr. Rietveld:

"Within the world of sovereign wealth funds, the Alaska Permanent Fund is admired and respected for its long tradition of rules-based policymaking, prudent investment management, and sound governance.

That said, the paper shows that the current two-account structure introduces significant risks to the ability to fund the annual POMV transfer that supports the state budget and the Permanent Fund Dividend.

The paper outlines reforms that should be pursued with urgency to ensure that the Fund continues to underpin the sustainability of Alaska's public finances for current and future generations."

-Dr. Malan Rietveld Sovereign Wealth Fund Expert

[9:51:40 AM](#)

Mr. Mitchell showed slide 13, "Proposed: Single-Fund Endowment," which showed a flow chart. He reminded that the primary recommendation of the trustee paper was the shift to a single-fund endowment with a defined draw rate. There had been some other statutory recommendations in Trustee

Paper 10, and one of the levers the corporation was already pulling was consideration as to when inflation proofing was appropriated. He shared that another lever was a forced recognition of unrealized gains, which would benefit the short-term but harm in the long-term. He noted that the most desirable option had been the constitutional amendment.

Mr. Mitchell stressed that the importance of the revenue showing up each year could not be understated.

Co-Chair Hoffman queried the committee.

[9:54:21 AM](#)

Senator Cronk reiterated that the proposed resolution was not a method for the legislature to dip into the state's "seed corn" but would limit what could be spent through the constitution.

Mr. Mitchell thought Senator Cronk's remarks were well said. He affirmed that the proposal would protect the seed corn.

Senator Cronk asked whether the legislature would still be able to access however much of the fund it wanted using the three-quarter vote.

Mr. Mitchell relayed that the proposal would limit flexibility. He thought that the hard limits proposed would ease the temptation to overspend from the fund.

[9:56:28 AM](#)

Senator Kaufman considered the zero fiscal note from the Office of the Governor. He asked whether there would be any anticipated costs to the APFC because of the bill.

Mr. Mitchell replied that APFC did not anticipate any additional costs.

[9:57:28 AM](#)

Senator Merrick thanked the committee for bringing the issue forward. She believed that it was the single most important issue of the current legislative session.

Co-Chair Hoffman thought the members echoed Senator Merrick's remarks.

[9:58:14 AM](#)

Senator Kiehl appreciated Senator Merrick's reference to the resolution being generational in scope. He considered that in pondering how to set up the new system it would be helpful to consider possibilities and risks. He wondered about the right cap on the POMV draw. He considered consequences of lower and higher draws. He questioned the human ability for fiscal discipline.

Mr. Mitchell emphasized his belief in rules-based structures. He cautioned against having ambiguity in a financial model such as that of the permanent fund. He pondered the addition of levers to address Senator Kiehl's concerns, but worried about it becoming too complex. He thought that the issue was a policy issue. He contended that 5 percent was a good limit.

[10:02:17 AM](#)

Senator Kaufman suggested modeling of different time periods and different draw rates and using history to help understand the implications of the proposal.

Co-Chair Hoffman asked when the amendment would go before the voters.

Mr. Mitchell said in the next general election.

Co-Chair Hoffman understood that to be in November 2026. He pondered that given the magnitude of the proposed constitutional amendment; it could be helpful to wait to pass the bill to give more time for public education on the matter. He thought the matter should be contemplated by both legislative bodies.

[10:04:25 AM](#)

Mr. Mitchell thanked the committee. He thought that change in the structure was necessary and that the matter was a generational issue.

Co-Chair Hoffman discussed housekeeping.

#

ADJOURNMENT

10:05:13 AM

The meeting was adjourned at 10:05 a.m.