

Additional Background Information for Resolution 26-33

Alaska Permanent Fund Corporation

**RESOLUTION OF THE BOARD OF TRUSTEES OF THE ALASKA PERMANENT FUND CORPORATION
OFFERING ALTERNATE PROPOSALS TO SUPPORT AN ANNUAL PERCENT OF MARKET VALUE
DRAW FROM THE PERMANENT FUND
RESOLUTION 20-01**

With the enactment of SB 26, Chapter 16 SLA 18 on July 1, 2018, an essential step was taken to codify a set of rules to establish a sustainable annual draw from the realized earnings of the Alaska Permanent Fund (Fund). The Board of Trustees believes additional measures would enhance the sustainable use of Fund earnings for the benefit of all generations of Alaskans that warrant consideration by the Alaska Legislature and the Administration, including:

- 1. Transform, by constitutional or statutory amendment, the Alaska Permanent Fund and Earnings Reserve Account into a single fund and limit the annual draw to the fund's long-term real return:**
 - a. Constitutional Amendment:** On three prior occasions the Board has adopted a resolution (Resolutions 00-13, 03-05, and 04-09) to collapse the Earnings Reserve Account into the Principal of the Fund and limit the annual draw from the combined Fund to no more than five percent of the average fiscal year-end market value of the fund over the immediately preceding five years. These resolutions explained that limiting the Fund's annual draw to the average real return of the Fund was both: (1) a common practice among large endowment funds, and (2) an effective way to balance the goal of maximizing the availability of income with the long-term goal of protecting the purchasing power of the Fund. Constitutional amendments to advance this change were considered by the Alaska Legislature during the Twenty-Second and Twenty-Third Alaska Legislatures, and are currently being considered by the Thirty-First session of the Alaska Legislature. To date, none of these resolutions have received sufficient Legislative support to advance to a general election for consideration by Alaska voters. The Board, through this Resolution, expresses its continued support of a constitutional amendment along the parameters outlined in its three prior resolutions on this topic.
 - b. Statutory Amendment:** The Board has also discussed and supports the development of a legislative proposal that would amend existing law to transform the current two-fund structure (i.e. Principal and ERA) into a single fund with an annual appropriation to the General Fund based on the average long-term real return of the Fund. Because the constitutionally dedicated royalty deposits and appropriations to the Principal of the Fund are not subject to appropriation (i.e., permanent dedications), an annual appropriation would be prohibited if it would cause the value of the Fund to drop below the historic dollar value of these dedicated deposits. By collapsing the ERA and Principal into a single fund and limiting the annual draw to the Fund's real return, inflation-

proofing the Fund on an annual basis via annual appropriation would no longer be necessary. Importantly, this single fund transformation, based on the words contained in article IX, section 15 of the Alaska Constitution, appears supported by the rules of construction in section 4 of the Uniform Prudent Management of Institutional Funds Act, which Alaska enacted in 2010. The Board, through this Resolution, expresses its support for and directs APFC Staff to draft a legislative proposal and seek input from the Department of Law before submitting this proposal to the Administration and Legislature for their consideration.

- 2. Adjustments to the existing rules-based system governing fund transfers into and out of the Principal and ERA, if the ERA and Principal are not combined:** If sufficient support for a constitutional or statutory amendment cannot be garnered to transform the Principal and ERA into a single fund with a limited annual draw, the Board supports the following additions to the existing rules-based system to ensure the ERA balance is sufficient to meet the annual POMV draw enacted by the Legislature in SB 26:
 - a. Periodic Review of Fund Return Assumption:** Because the POMV draw from the ERA established in SB 26 is based on the assumption that the Fund expects to generate an average real return of 5%, if the Fund's real return falls below 5% for an extended period of time, the ERA will run dry (i.e. ERA Shortfall). The Board recommends having a mechanism built into state law that would require APFC to revisit this return assumption every few years and provide the Legislature with a report as to whether a 5% POMV is projected to be sustainable, both in terms of the expectation of the Fund to generate a 5% real return and the ERA's ability to support the POMV draw based upon its current and projected balance.
 - b. ERA Balance Buffer:** In modeling and analyzing the long-term durability of the ERA to support the POMV draw, it is clear that during market environments when realized gains from the Principal remain low for a prolonged period of time, without a buffer of funds in the ERA, the risk of ERA Shortfalls become meaningful. To hedge this risk, the Board supports a change to the existing rules-based system to maintain a balance in the ERA of at least four times the expected annual POMV draw ("4X Buffer"). This would include a rules-based approach that suspends inflation proofing when the ERA balance is below the 4X Buffer, and to make up missed inflation proofing payments when the ERA balance exceeds the 4X Buffer. This set of rules is projected to result in similar inflation proofing outcomes as the current annual rule, but significantly decrease the chance the POMV draw cannot be made in any given year.

To be clear, the Board continues to support the consistent inflation-proofing of the Principal of the Fund as set forth in Board Resolutions 17-01 and 18-04. However, if the Legislature can both maintain the long-term durability of the ERA to support the SB 26 annual POMV draw and honor its commitment to inflation-proof the Principal of the Fund over the long-term, the harm

to the Principal of the Fund will be mitigated. The Board is also evaluating and discussing with the Department of Law a legislative proposal to re-define “net income” so that the annual inflation-proofing transfer would happen every year automatically. Should this legislative proposal receive support, it could be designed to trigger the suspension of inflation-proofing when the ERA balance is too low and trigger inflation-proofing catch-up payments when the balance of the ERA recovers; all without the need for annual appropriation to support these events.

Based on analysis completed by APFC Staff and the General Consultant at the request of the Board, the combination of these two protective measures will enhance the ability of the ERA to weather most foreseeable market environments and sustainably generate the 5% POMV draw set forth in SB 26.

NOW THEREFORE BE IT RESOLVED that the Trustees direct the Executive Director to distribute this Resolution to the Members of the 31st Alaska State Legislature and offer to have the Board, Staff, and the General Consultant testify in support of the Legislative initiatives set forth in this Resolution.

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation, this 5th day of March, 2020.

/s/
Craig Richards
Chairman, Board of Trustees
Alaska Permanent Fund Corporation

ATTEST:

/s/
Angela M. Rodell, Corporate Secretary

ALASKA PERMANENT FUND CORPORATION**RESOLUTION OF THE BOARD OF TRUSTEES OF THE ALASKA
PERMANENT FUND CORPORATION RE-AFFIRMING THE BOARD'S
COMMITMENT TO A CONSTITUTIONAL AMENDMENT ESTABLISHING A
PERCENT OF MARKET VALUE ("POMV") SPENDING LIMIT
METHODOLOGY FOR THE ALASKA PERMANENT FUND****RESOLUTION 04-09**

In December 2000 and again in April 2003, the Board of Trustees ("Board") expressed by resolution its view, as the body with fiduciary responsibility for the management of the Alaska Permanent Fund ("Fund"), that adoption of a constitutional amendment to limit spending from the Fund by use of a "percent of market value" ("POMV") formula was in the long-term best interest of both the Fund and the people of the State of Alaska. In both resolutions (Resolutions 00-13 and 03-05), the Board encouraged the Legislature to consider and approve a POMV amendment that would permit an annual payout from the Fund of no more than five percent of the average market value of the Fund over a prior five year period.

Such a proposal was introduced during the now-concluded 23rd Legislature, but was not approved for presentation to the voters at the upcoming general election. The Board appreciates the support given this POMV proposal by Governor Murkowski and the support by the Legislature.

Despite the failure of the Board's POMV proposal to be placed on the 2004 general election ballot, implementation of a constitutional POMV spending limit for the Fund, with the accompanying benefit of assuring permanent inflation proofing of the Fund, continues to be a high priority policy goal for the Board.

NOW, THEREFORE, BE IT RESOLVED by the Board of Trustees that the Board reaffirms its commitment to a constitutional amendment that provides for protection of the Fund by application of a POMV payout mechanism.

BE IT FURTHER RESOLVED that the 24th Legislature of the State of Alaska, in consultation with the governor and the Board, is again urged to consider and approve a proposal for a POMV spending limit.

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation this 21st day of September, 2004.

*/s/ Carl Brady, Chair
Board of Trustees*

ATTEST:

*/s/ Michael J. Burns
Corporate Secretary*

HOUSE JOINT RESOLUTION NO. 10

IN THE LEGISLATURE OF THE STATE OF ALASKA

THIRTY-FOURTH LEGISLATURE - FIRST SESSION

BY REPRESENTATIVES SCHRAGE, Fields

Introduced: 2/21/25

Referred: State Affairs, Judiciary, Finance

A RESOLUTION

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

3 **BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 * **Section 1.** Article IX, sec. 15, Constitution of the State of Alaska, is amended to read:

5 **Section 15. Alaska Permanent Fund. (a)** At least twenty-five percent of all
6 mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing
7 payments and bonuses received by the State shall be placed in a permanent fund.
8 **Except as provided in (b) of this section, the fund** [, THE PRINCIPAL OF
9 WHICH] shall be used only for [THOSE] income-producing investments specifically
10 designated by law as eligible for permanent fund investments. All income from the
11 permanent fund shall be **retained** [DEPOSITED] in the [GENERAL] fund [UNLESS
12 OTHERWISE PROVIDED BY LAW].

13 * **Sec. 2.** Article IX, sec. 15, Constitution of the State of Alaska, is amended by adding a
14 new subsection to read:

15 (b) Each fiscal year, the legislature may appropriate from the permanent fund
16 to the general fund an amount that is not more than five percent of the average fiscal-

1 year-end market value of the permanent fund for the first five of the preceding six
2 fiscal years, including the fiscal year just ended. Each fiscal year, the legislature may
3 also appropriate from the permanent fund an amount to pay costs associated with
4 investments made under (a) of this section, including operating expenditures
5 associated with managing the fund.

6 * **Sec. 3.** Article XV, Constitution of the State of Alaska, is amended by adding a new
7 section to read:

8 **Section 30. Permanent Fund Amendments: Transition.** (a) On June 30,
9 2027, the unencumbered balance of the earnings reserve account established by law
10 shall be deposited in the Alaska permanent fund and become part of the principal of
11 the fund.

12 (b) The 2026 amendments relating to the Alaska permanent fund (art. IX, sec.
13 15) apply to appropriations made for the fiscal year ending June 30, 2028, and
14 thereafter.

15 * **Sec. 4.** The amendments proposed by this resolution shall be placed before the voters of
16 the state at the next general election in conformity with art. XIII, sec. 1, Constitution of the
17 State of Alaska, and the election laws of the state.

Alaska House of Representatives

Representative Calvin Schrage

Co-Chair: House Finance Committee

Session:

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House Joint Resolution 10 - Version A

Sponsor Statement

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

When the Permanent Fund was created, it was structured as two accounts: the Principal and the Earnings Reserve Account (ERA). The Alaska Constitution prohibits the spending of the Principal without a vote of the people. However, profits generated by the fund are deposited into the ERA, which is entirely available for the Legislature to appropriate and spend. The current value of the ERA is approximately \$9.7 billion. Overdraw of the ERA depletes the value of the entire Permanent Fund and leaves Alaska worse off. In 2018 the Legislature adopted statutes that allow appropriation up to an amount that maintains the growth of the fund. This plan is commonly known as the "Percent of Market Value" ("POMV") draw. Still, those statutes do not stop the Legislature from passing budgets that spend Permanent Fund earnings beyond those sustainable limits. This resolution would send a proposed amendment to Alaska voters to enshrine this policy in the constitution.

The proposed constitutional amendment would combine the Permanent Fund Principal and the Permanent Fund Earnings Reserve Account into a single constitutionally protected account. Under this proposed amendment, the Legislature would be allowed to appropriate each year a maximum of five percent (5%) of the market value of that new constitutionally safeguarded account as calculated over the first five of the preceding six fiscal years. Experts have told the Legislature that these limits make that spending rate sustainable.

The Permanent Fund's Board of Trustees have recommended this change since 2003, and this constitutional amendment was also urged by the Fiscal Policy Working Group, a bipartisan and bicameral group of legislators that issued a report in 2021.

This measure is not and should not deal with the size of the Permanent Fund Dividend or what specific percentage of this appropriation is spent on state services. It neither encourages nor prevents legislators from pursuing those plans in the future. This merely prevents the state from overspending our renewable financial resource which ensures the permanence of our Permanent Fund.

May 2, 2025