Time and money

ALLIANCE / RESOURCE DEVELOPMENT COUNCIL - JAN. 14, 2021

Former Department of Revenue Deputy Commissioner Larry Persily
Time is short for Alaska, as is money

- Permanent Fund Corp. Nov. 30, 2020, balance sheet shows $9.45 billion uncommitted and available in earnings reserve
- That accounts for anticipated FY22 POMV 5% draw $3.069 billion
- Governor proposes a special $1.2 billion spring 2021 draw on earnings reserve to pay additional $1,900 PFD to Alaskans
- Proposes additional $2 billion FY22 draw on earnings reserve by the 2021 Legislature to pay ‘full’ $3,000 dividend in the fall
The details matter

➢ Governor refers to the fact that the Permanent Fund reported $10 billion in investment gains March to December 2020

➢ But he neglects to fill in the rest of the story: The Fund dropped in value $7 billion from Jan. 1 to March 31, 2020

➢ The Fund continued to add investment gains in December, but the reality is that no one can predict future earnings

➢ Permanent Fund earnings balance is an ever-changing number
Will the savings last?

➢ POMV 5% draws for FY21 and FY22 and the two additional draws for spring and fall dividends will total more than $9.3 billion

➢ Permanent Fund Board of Trustees recommends keeping 4X annual 5% POMV draw in the earnings reserve to protect against market downturn and ensure viability — about $12 billion

➢ Before Alaska started drawing on Fund earnings in FY19 to help pay for services, it relied on Constitutional Budget Reserve for 30 years, but CBRF will be down to under $1 billion at FY21 end
Longer-term solutions

➢ Governor proposes Alaskans vote in a spring special election on an advisory question to share annual Permanent Fund draw 50-50 between dividends and state budget public services

➢ And then three November 2022 constitutional amendments:
   ❑ Eliminating the line between Permanent Fund principal and earnings and turning the state’s oil-wealth fund into a true endowment model
   ❑ State spending limit
   ❑ A prohibition on any new taxes without a vote of the people
Matching spending with revenues

- Governor proposes $450 million in budget cuts over FY22, 23, 24

- And then ‘Alaska’s economy will rebound from pandemic-induced recession as soon as FY23 and may be healthy enough to bear additional revenue measures’ — sounds like new state taxes

- Governor’s 10-year budget counts on ‘other revenue sources’ of $1.2 billion in FY23 and about $1 billion each year thereafter

- No specifics of ‘other revenues’ or how they could appear so fast
Repair and rebuild Alaska economy

➢ Governor asks $300 million to $350 million bond issue of ‘shovel-ready projects,’ with a special election this spring

➢ No specifics: ‘Roads to resources, renewable energy projects, ports, harbors, runways, bridges and other essential projects’

➢ Vote of the public required for general obligation state debt

➢ If not approved by voters until spring, can the work and jobs really start in time to help rebuild the Alaska economy in 2021?
Is this a realistic calendar?

It poses a risk of draining the Permanent Fund earnings

**Governor wants special election for statewide bond issue and PFD advisory vote.**
Lawmakers may well exceed 5% Permanent Fund draw to pay for services, dividends.

**FY22 5% POMV draw estimated at $3.069 billion.**
Available Permanent Fund earnings reserve balance was $9.5 billion as of Nov. 20, 2020, balance sheet.

**FY23 5% POMV draw estimated at $3.2 billion.**
Governor proposes 50-50 split between PFDs ($2,378 per person) and public services and state agencies.

**2021 session**

**FY22 PF draw**

**FY23 PF draw**

**The risks**

**2021**

**Spring 2021**

**July 1, 2021**

**January 2022**

**July 1, 2022**

**November 2022**

**FY2023**

**Special election**

Advisory vote on governor’s proposal for 50-50 split of Permanent Fund draw between PFD and budget, and a vote on bond issue.

**2022 session**

Legislature will need to build FY23 budget that is short $1.2 billion under governor’s 10-year plan, which assumes unspecified ‘other revenues.’

**Fall election**

Constitutional amendments on November 2022 ballot:
Spending limit, no new taxes without public approval; and turn PF into an endowment.
Support for constitutional amendment

➢ Permanent Fund Corp. Board of Trustees has adopted resolutions 3 times in support of constitutionally protected endowment that eliminates distinction between principal and earnings

➢ The Board of Trustees has not weighed in on dividend formula

➢ Until a constitutional amendment converts the fund into an endowment, Trustees recommend maintaining a balance in earnings reserve equal to 4 times the annual 5% POMV draw — without buffer, the risk of reserve shortfalls is ‘meaningful’
Permanent Fund grows

- Permanent Fund Corp. projection of Nov. 30, 2020, shows an estimated year-end market value of $80 billion in FY30.
- That assumes state adheres to 5% annual POMV withdrawal.
- Projection assumes average 6.75% annual return on investments.
- FY2030 5% POMV draw projected at $3.66 billion, that is about $200 million more than if $3.2 billion additional is withdrawn from account to pay spring 2021 and larger fall 2021 PFDs.
Almost forgot — what about oil

- Fall 2020 state Revenue Forecast book projects $48 oil FY22
- Alaska North Slope crude closed last week $6 higher
- If North Slope oil averages $60 a barrel in FY22, the state would earn about $270 million additional revenue for general fund
- Alaska is an investment state — FY22 general fund revenues:
  - $3.069 billion in Permanent Fund earnings under 5% POMV draw
  - $800 million oil revenues, excluding what is saved into Permanent Fund
  - And less than $400 million from all other taxes and fees to the state
Contact information

Larry Persily

paper@alaskan.com

907-351-8276