

Alaska Permanent Fund Corporation

RESOLUTION OF THE BOARD OF TRUSTEES OF THE ALASKA PERMANENT FUND CORPORATION RELATING TO A SUSTAINABLE RULES BASED LEGAL FRAMEWORK FOR FUND TRANSFERS

RESOLUTION 18-04

In 2018 the Alaska Legislature passed and the Governor signed into law SB 26, Chapter 16 SLA 18, an important first step in codifying a set of rules to establish a sustainable annual draw from the earnings of the Permanent Fund. As the people of Alaska begin a new chapter in the role the Permanent Fund will take in our state, the Alaska Permanent Fund Corporation Board of Trustees (Board) offers the following guidance on a rules based framework around fund transfers to help ensure the long-term success and sustainability of using Permanent Fund earnings for the benefit of all generations of Alaskans:

- 1. Adherence to a Rules Based System for Fund Transfers:** Resolution 18-01 of the Board states the importance of following a rules-based legal framework for withdrawals and savings into the principal and Earnings Reserve Account of the Permanent Fund. That rules-based framework includes adhering to the formulaic calculations provided for in statute for transfers into and out of the Permanent Fund, such as dividends, royalty deposits, and inflation proofing. As explained in the Resolution 18-01, adherence to the rules increases the likelihood that systematic draws from the Permanent Fund will be sustainable over time and will allow for more prudent investment of the Permanent Fund due to the predictability of liquidity needs.
- 2. Ensure Sustainability:** Any rules-based system for drawing from the Permanent Fund (to support government spending or for dividends) should be sustainable, meaning the formulaic system for withdrawals should be projected to result in the Permanent Fund growing annually by at least the rate of inflation. Sustainability also requires annual formulaic withdrawals from the Earnings Reserve Account at an amount that the long-term balance of the account is able to fund. The Board has long supported the percent of market value (POMV) concept, including a constitutional amendment that would ensure no more than a sustainable amount was taken from the annual earnings of the Permanent Fund (Resolutions 00-13, 03-05 and 04-09). SB 26 institutes an annual POMV draw from the Earnings Reserve Account to the general fund that is based on 5.25 percent (going to 5.0 percent in fiscal year 2022) of the average market value of the Permanent Fund for the first five of the preceding six fiscal years. Current market projections applied to the asset allocation of the Permanent Fund suggest annual draws as set forth in SB 26 are sustainable over the long-term. To ensure long-term sustainability, the Board recommends instituting a process that would require periodic review of these assumptions as market conditions change so that a timely reduction to the annual draw could be effectuated if necessary to maintain the long-term sustainability of the Earnings Reserve Account.
- 3. Automatic Inflation Proofing:** To ensure that the purchasing power of the principal is maintained as set forth in Alaska Statutes 37.13.020 and 37.13.120(a), an annual transfer of realized income from the Earnings Reserve Account to the non-spendable principal of the fund must occur. The Board has expressed its support for ensuring that this annual inflation proofing transfer take place (Resolution 17-01). Traditionally inflation proofing happened through an annual appropriation by the Legislature consistent with the provisions of Alaska Statute 37.13.145(c), but for fiscal years 2016, 2017 and 2018 the transfers were not made. The Board believes that the inflation-proofing transfer should become a guaranteed annual event rather than a discretionary transfer that is subject to appropriation. To achieve this goal, the Board supports passage of

legislation that would define net income to require realized gains that are accumulated throughout the fiscal year be used to offset the impact of inflation on the principal of the fund with the remainder of net realized gains being accounted for in the Earnings Reserve Account.

- Promote Real Growth When Possible:** While providing for a sustainable draw by preserving the purchasing power of the fund and ensuring a durable Earnings Reserve Account is a primary goal of the Board, recognizing and executing on opportunities to grow the real value of the fund is also important. Real growth will not only result in more income and thus higher sustainable draws in the future, it is necessary to preserve intergenerational wealth as Alaska continues extraction of its finite natural resources. Thus the Board supports thoughtful strategies to grow the fund on a real, and not just nominal, basis. Examples might include instituting a mechanism to reduce the annual draw on the fund during years when other state revenues are sufficient to fund government services or increasing the amount of royalties that are annually deposited into the principal of the fund during years where oil and gas revenues are high. Setting up the rules for when and how Permanent Fund earnings and oil and gas revenues could be used to promote real growth would need to occur in the near term while oil and gas revenues are still substantial enough to provide meaningful options for real growth of the fund.

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 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 day of _____, 2018.

/s/
Craig Richards
Chairman, Board of Trustees

Alaska Permanent Fund Corporation

ATTEST:

/s/
Angela M. Rodell, Corporate Secretary