

Sponsor Statement for HJR 19

- Constitutional Amendment to limit withdrawals from the Permanent Fund
- Assures the availability of the maximum sustainable amount for appropriation
- Provides additional protection of the fund earnings

House Joint Resolution 19 would limit annual withdrawals from the Permanent Fund to no more than 5 percent of the Fund's value, averaged over five years. If passed, this resolution would place a constitutional amendment ratifying this change before the people of Alaska on the next general election ballot.

Currently the Permanent Fund is separated into two parts, principal and the realized earnings reserve. The Constitution states that principal may not be spent, while the earnings reserve is available for appropriation by the Legislature for any purpose, including the Permanent Fund Dividend Program.

The greatest threat to the Permanent Fund's future is overspending. The maximum sustainable yield from the Fund is no more than 5 percent of the Fund's value, averaged over the previous five years. To withdraw more could lower future earnings. In many years more than 5 percent has been available for appropriation. In some years as much as 20 percent has been available for Legislative appropriation.

Thus far the Legislature has been a good steward of the Fund's earnings, transferring excess earnings to principal where those funds are protected from spending, and only using the Fund for dividend distributions. But future Legislatures, however, may be forced to turn to the Fund for other purposes, and so it is important to place a limit now on what may be withdrawn in the future.

All public endowment funds are required by the IRS to make payouts based on 5 percent of their value, and many private endowment funds also use a percent of market value based payout method. The Board of Trustees has supported moving the Fund to a percent of market value based payout for many years, and has introduced legislation in the last two Legislatures to make this change.

The proposed constitutional amendment would provide additional protection of the Fund's earnings by removing the provision from the Constitution that directs earnings to Alaska's general fund "unless otherwise provided for by law." Instead, the earnings would remain with the Fund as they do today under state law, and could not be removed outside of the 5 percent available for withdrawal.