



## **REPRESENTATIVE BILL HUDSON** Alaska State Legislature

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### **Sponsor Statement for CS HB 35 ( ) 22-LS0289\L**

#### Distribution of Permanent Fund Income

**"An Act relating to the market value of the permanent fund and to distribution of income of the permanent fund; and providing for an effective date."**

The Permanent Fund currently provides each resident of this state a dividend. The source for that dividend depends on what we all know is an unsteady income stream: returns (or losses) from the Permanent Fund's investments. The [Permanent Fund Board of Trustees](#) has long recommended a "[percent-of-value](#)" determination for the annual payout, rather than an average of five year's income (or loss) from investments. [HB 35](#) incorporates the Board of Trustees' recommendations to change the method used to calculate the annual distribution to the method used by most large managed funds. That is - paying out, "distributing" a percentage of the Market Value of the Fund, averaged over five years. With an expected average rate of return on the Permanent Fund's investments of 8.25%, paying out 5% ensures an annual inflation-proofing factor of around 3%.

The Board of Trustees recommends a 5% payout limit. [HB 35](#) also statutorily fixes a distribution stream for that 5% payout; 50% to the dividend program, and 50% to the general fund. This will pay for approximately one-half of the \$1.0 billion dollar budget deficit each year while allowing for the continuation of the PFD. The Permanent Fund Dividends would be reduced initially, but would continue to grow with the infusion of inflation proofing dollars. Those very inflation-proofing dollars are at risk to cover general fund spending if dramatic but effective measures are not adopted to deal with the fiscal gap.

[HB 35](#) was introduced to give the Permanent Fund strength, security and stability far into the future, ensuring the commitment to pay dividends to Alaskans, while also allowing that the infrastructure of the state does not fall into further neglect. In fact, this bill would allow for the first major contribution for payment for essential services provided to the people of Alaska, while still preserving the continuation of the people's dividend for the foreseeable future.

Passage of [HB 35](#) would allow the Permanent Fund Corporation to hold investments that historically need more time to mature rather than to cash them out in order to pay dividends each year. Another unique feature of the market value approach is that it produces a distribution program that is inherently more level. This is consistent with accepted methods of measuring Permanent Fund performance and with the market value accounting requirement now mandated by the [Governmental Accounting Standards Board](#).

This bill is a major change to the status quo for the state budget, for the permanent fund dividend program, and for our personal contribution and our individual obligation for Alaskan programs that are vital parts of the economy and traditions of this state. If we don't modify the method for determining permanent fund dividends, if we don't find new sources for paying for roads, education and public safety and health programs, we will find ourselves the overseers of a weakened and poorer state. The erosion of both the CBR and, in time, the Earnings Reserve Account – ERA, (the current source for dividends and inflation proofing) is the alternative to broad-based taxes or other new revenues.