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February 6, 2017

The Honorable Neal Foster
Alaska State Representative
Co-Chair, House Finance Committee
State Capitol, Room 410
Juneau, AK 99801

Dear Co-Chair Foster:

In the House Finance Committee hearing this past Thursday, February 2nd, when presenting on the Permanent Fund Protection Act (HB 61), we mistakenly summarized the three year review as it existed in an earlier version of last year's bill.

As originally introduced last year, the Alaska Permanent Fund Protection Act (HB 245) included a provision calling for a periodic review of the amount of the fixed draw to ensure that it remained sustainable as circumstances changed over time. That review was to be conducted every four years. The timing was intended to (1) correspond with the proposed "four times" rule governing inflation proofing transfers to the principal and (2) place each administration in the best position possible to make good, well-informed decisions about whether to recommend changing the fixed draw amount.

The three-year review in HB 61, the bill before the committee this week, is different. Mirroring the language in the version of the permanent fund bill passed by the Senate last year, the three-year review in section 1 of HB 61 is a one-time event. Another difference is that it is expressed as legislative intent. Given the importance of the permanent fund and the dividend to Alaskans, the administration fully supports this provision. It makes sense to reevaluate this new framework in case hindsight proves any changes to be either unnecessary or inadequate.

The House Finance Committee members also asked about the rationale for the "four times" rule in section 6 of HB 61.[1] The "four times" rule did correspond to the timing of the periodic review originally proposed in HB 245 last year, but there are also other reasons for targeting a 4:1 balance-to-draw ratio including: (1) this ratio has historically worked well for the Alaska Mental Health Trust Fund and (2) the modeling suggests that maintaining an earnings reserve account balance at this level would guard against the risk of depleting the account over several years of poor investment returns and low oil revenues. More detail about the four times rule is presented

[1] The "four times" rule would govern the timing and amount of inflation proofing transfers from the earnings reserve account (ERA) to the corpus of the fund: when the balance of the ERA reaches four times the amount of the full POMV (or 21% of the fund's value) money in the ERA over that amount would be appropriated to the corpus.

in the bill's sectional analysis and on page 10 of the whitepaper "The Alaska Permanent Fund and the Permanent Fund Protection Act" provided to the committee last week.

We apologize for the confusion and hope that this letter provides clarity for the committee. Please let us know if we can provide any further information on this issue.

Sincerely,

Randall Hoffbeck
Commissioner