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[Rodell reflects on Fund at \\$60B milestone / By: Elwood Brehmer](#)



Alaska Permanent Fund Corp. CEO Angela Rodell spoke with Journal staff during an hour-long interview Aug. 23 to reflect on how the state’s nest egg has grown to more than \$60 billion and where it is going now that it’s nearly a foregone conclusion that the income will soon be used to fund government rather than just dividend checks. (Photo/Andrew Jensen/AJOC)

The Permanent Fund is many things to many Alaskans.

It’s the State of Alaska’s way of transforming finite resources into potentially perpetual wealth.

It’s the source of undoubtedly one of the most popular government programs ever envisioned, the Permanent Fund Dividend.

It’s always a reliable topic for lively debate.

At more than \$60 billion, it’s currently worth about \$83,000 per Alaskan.

To Alaska Permanent Fund Corp. CEO Angela Rodell, it’s also beautiful.

“When you think about the forward thinking and political will it took to set this up, it’s stunning. All too often I hear about the things that we’re not proud of in Alaska,” Rodell said during an hour-long interview with the Journal on Aug. 23. “Yet this one we got really right. This is something I think we should all be tremendously proud of and understand.”

The understanding part is key, according to Rodell, particularly as the Legislature and Gov. Bill Walker debate whether the Fund should also be a funder of government.

She said Alaskans, even some legislators, regularly refer to her organization as the “Permanent Dividend Division” or the “Permanent Dividend Fund,” referencing the corporation’s longtime sole purpose as far as much of the public is concerned: to produce the annual dividend checks distributed by the Revenue Department each October.

On one level, the misconceptions about the Fund are understandable. Since 1976, when voters passed a constitutional amendment establishing the Permanent Fund, it has been cared for in relative anonymity.

In 1980, the Legislature directed the corporation to start spinning off dividends based on the length of each Alaskan’s residency. The U.S. Supreme Court promptly nixed the idea of rewarding Alaskans based on their time served and in 1982 the Legislature approved the Permanent Fund Dividend formula that stands today.

The PFD is half of the average annual net income generated by the Fund over the five most recent state fiscal years divided amongst all eligible residents.

To date, the Fund supported more than 18.4 million dividend checks totaling about \$21.1 billion.

It was started with an initial deposit of \$734,000 in oil royalties on Feb. 28, 1977.

Continuous mineral royalty deposits and prudent management have grown the fund to \$60.9 billion today.

During the 2017 fiscal year that ended June 30, the Fund grew by more than \$7 billion thanks to corporate managers achieving a 12.6 percent return on its investments.

Rodell described the strong returns as a “nice recovery” after turbulence in financial markets through much of 2016 limited the Fund to about 1 percent growth.

The 12.6 percent return was led by a roughly 20 percent return on the \$26.1 billion of the Fund invested in public equities, or stocks.

Rodell acknowledged that a market correction is all but assured given U.S. public markets continue to set records almost daily.

“We know because history tells us there will be a correction. When and where — how much — is anyone’s guess. We don’t have any more insight into that than anyone else,” she said, noting that is why the Fund has an ever-more diversified portfolio.

Rodell said the staff regularly run scenarios of various possible market downturns to evaluate how they could impact the Fund.

Time of transition

Rodell took the helm at the APFC in October 2015 just a couple months before Walker took a big political leap and proposed employing the Fund’s earning power to help alleviate what was then a roughly \$4 billion budget deficit.

Walker's original bill would have drastically re-plumbed state finances to funnel most revenue through the Permanent Fund to fully harness that earning power and spin off about \$3.2 billion to pay for government services.

The governor has since endorsed a simpler percent of market value, or POMV, draw from the Fund's Earnings Reserve Account each year, a plan his administration devised alongside Senate Republicans early in 2016.

While the Democrat-led House and Republican-dominated Senate both passed similar version of Walker's POMV bill earlier this year, the politically disparate leadership in the bodies have yet to compromise on the contingencies each has placed on doing something that was unheard of just a couple years ago, as Rodell and others have noted.

Both House and Senate POMV plans would result in a smaller dividend check from the current statutory formula.

Neither Walker nor former Gov. Sean Parnell ever mentioned turning to the Fund's earnings to fix the deficit in the 2014 gubernatorial race, with Walker explicitly rejecting the idea of touching the PFD. However, less than three years later, it feels inevitable.

Rodell was Revenue commissioner and a Permanent Fund trustee in Parnell's administration.

And though the Legislature is on the precipice of tapping the Fund for government — something it has resisted for 40 years — Rodell said it is being done properly, even if the politics is messy.

"I think having a structural plan in place that is either POMV or a capped dollar amount draw really sort of helps everybody plan for some sort of distribution of the Earnings Reserve Account to the extent that (legislators) decide that's the direction they want to go," she said.

Like the General Fund, the Earnings Reserve has always been accessible by majority votes in the House and Senate along with the governor's approval.

Additionally, the Alaska Supreme Court ruled Aug. 25 that the dividend is just another state appropriation that the governor has veto power over despite the best efforts of Sen. Bill Wielechowski and former state Sens. Clem Tillion and Rick Halford, who served in the Legislature when the dividend program was established.

The bipartisan trio and some others in the Legislature have also supported the idea of enshrining the current dividend formula in the state Constitution to protect it from actions like Walker's veto to halve the PFD appropriation in 2016 and the Legislature's move this year to arbitrarily set dividends at \$1,100 per Alaskan.

Both moves resulted in PFD payments that were about half of what they would have been under the statutory formula.

The \$1,100 amount was a compromise between the dividends the House and Senate's Permanent Fund POMV bills would provide for; the Senate's was set at \$1,000 with a 5.25 percent draw and the House's at \$1,200 with a 4.75 percent draw.

Those bills would generate about \$2.5 billion for government and dividends combined.

Three times between 2000 and 2004, the Permanent Fund Corp. Board of Trustees passed resolutions in support of a POMV draw from the Fund of up to 5 percent after inflation; that was the last time lawmakers mulled employing the Fund to reduce deficits. Soaring oil prices and tax revenue soon pushed deficit worries aside.

With all that as background, Rodell again stressed the importance of broadening knowledge about the Fund and its namesake corporation among both lawmakers and the general public.

“For a long time nobody paid any attention because our purpose was to pay an amount over to (Revenue) to pay dividends, so you didn’t have a constituency that really cared,” she said. “Everybody cares about their dividend; they don’t really care how you get to the dividend or what it takes to generate that dividend.

“I think in order for people to understand exactly what they’re being asked to make decisions about, whether it’s voters deciding the dividend or whatever it is, they need to understand what the Permanent Fund and the corporation is.”

Fund 101

If the Fund is going to be expected to support part of the state’s budget each year, the first shift has to be mentally separating the Earnings Reserve that holds the Fund’s net income from its principal, according to Rodell. Together, the accounts make up what has always been known as the entirety of the Fund.

Rodell admitted she often slips up, referring to the Fund as “\$60 billion” to the Journal, instead of parsing out the \$47 billion principal, or corpus, and the nearly \$13 billion Earnings Reserve.

The accounts are usually rhetorically lumped together in part because they are invested together. Stocks, for example, are purchased by the corporation with a pro-rated amount of the corpus and the Earnings Reserve.

However, 100 percent of the income earned off that stock when it is sold is deposited into the Earnings Reserve, which is why inflation-proofing the corpus of the Fund is critical, Rodell said.

The Legislature has not transferred money from the Earnings Reserve to the corpus for inflation proofing in the last two state budgets in an effort to build up the Earnings Reserve before starting to draw on it. It’s a decision Rodell appreciates, but it doesn’t make fighting the value degradation of the Fund any less important.

In fiscal year 2016, it would’ve only taken about \$47 million to counteract inflation — about 0.12 percent of the corpus value. But in 2017, that jumped to more than \$500 million, according to Rodell.

“If we’re not putting anything back into the corpus we still have that same \$39 billion we had in the nominal value of the royalties contributed over the years; that’s all we have to invest,” she said.

Rodell objects to the premise that the ongoing mineral royalty payments offset inflation. First, with current lower oil prices and much less production than the state has seen historically, last year’s royalty injection into the Fund of about \$225 million isn’t even half of what was needed to offset inflation.

Additionally, using royalties in-lieu of inflation proofing transfers does a disservice to young Alaskans, Rodell contended.

"I would argue the royalty payment is the nonrenewable resource turning into a renewable resource. It shouldn't even be considered a hedge against inflation by any stretch," she said. "We're still harvesting that nonrenewable resource and future generations should get the benefit of what we're harvesting today and that's the royalty payment."

Along with deferring inflation proofing, legislators also disregarded laws directing up to 50 percent of royalty revenue from some state leases to be deposited into the Fund. The Constitution requires a minimum of 25 percent of all resource royalties be used to grow the Permanent Fund and the Legislature has funneled the other 75 percent of royalty revenue into the General Fund of late in an effort to shrink the deficit.

"There are a number of statutes that have been ignored without a plan being put in place. That concerns me," Rodell said.

Gov. Walker's Permanent Fund restructure bills also reverted to the 25 percent royalty minimum and the POMV bills would only start to inflation-proof the Fund once the value of the Earnings Reserve is greater than four times the previous year's draw. Any excess cash beyond the four-fold threshold would automatically be injected into the corpus.

Budget battles

While the realities of the state's fiscal situation are putting pressures on the Fund, the Legislature's ever-increasing inability to timely pass a budget is starting to weigh on the Alaska Permanent Fund Corp., as it is an arm of the state Revenue Department.

Rodell recalled that the budget fight in 2015 drew into May, but the Legislature passed a receipts budget allowing self-sustaining state operations to stay open in the event of a government shutdown. The corporation's budget comes out of the Earnings Reserve.

By 2016, a budget deal was reached just days before the dreaded "pink slips" had to go out to state workers on June 1, but there was no receipt authority granted prior. In 2017, the budget battle lasted until a week before a government shutdown.

At one point during the month, the Senate had passed a bill to use about \$2 billion in Fund earnings while the House passed a budget to spend \$5 billion. The eventual compromise ended up filling the deficit from the Constitutional Budget Reserve and dividends were funded as usual from the Earnings Reserve.

"This year, they're fine with sending out pink slips, but we're not actually going to shut down state government. What do you think happens next year? I don't care that it's an election year," she commented, adding that people in the Lower 48 are taking notice.

"I've got headhunters watching this and calling my staff, calling me, saying, 'Hey Angela, do you really want to keep working for the State of Alaska? I've got a great job in the Lower 48 for you.' My (chief investment officer) got calls; we all got calls," Rodell said. "Now the good news is we're also residents of Alaska; we love Alaska, but how many more times are we going to do this?"

“I don’t think there’s a single legislator out there that has any interest in seeing us shut off the lights and close our doors, not one, but we’re part of the bigger budget battles that happen.”

To that, Rodell said the corporation Board of Trustees will likely decide at its late September meeting in Juneau whether or not the corporation will seek a change to state law to forward fund the corporation or otherwise remove it from the annual budget debates.

She also characterized trying to adequately compensate the world-class finance professionals managing investments on the scale of the Permanent Fund requires as “a real challenge,” noting the Revenue commissioner faces the same obstacles with Treasury Division officials.

Keeping up with compensation

Because the APFC is technically an arm of the state, its salaries are viewed through the lens of what’s fair compensation for state government workers, Rodell said.

“We got caught this year again in a debate of ‘no one’s getting merit increases.’ They cut \$169,000 from our budget request I had built in for merit increases but we made \$7 billion,” she commented, emphasizing that she does not advocate for Wall Street-like compensation at the APFC.

Thankfully, the opportunity to work on the Permanent Fund — the United States’ premier sovereign wealth fund — in a place like Juneau usually sells itself, according to Rodell.

She said investment types from worldwide hubs such as Singapore and London apply to move to Juneau to be a part of Alaska’s Fund.

She described it as a “really crazy unique experience,” noting that the U.S. Treasury looks to the APFC to be its “eyes, ears, voice in the international camp. We participate in the International Forum of Sovereign Wealth Funds that was created by the World Bank and the IMF (in 2009); we are a leader in that organization.”

Former CEO Mike Burns helped craft the Santiago Principles of transparency and good governance for sovereign wealth funds after the 2008-09 financial crisis, Rodell pointed out.

“We have trillion-dollar funds — the staff come to Juneau and learn how we do things because they like the results that they see; they appreciate the transparency we create,” she said. “We bring a bit of a ‘halo effect’ we call it, to certain investments when we participate and I was not aware of that international reputation until I got into this job and started going outside.”

She continued, “Knowing that we are voice in the international finance community — I think people would be really stunned by that. Now, whether or not people think that’s a role for us to play or not I don’t care. The fact is we can’t get away from it.

“We have access to some of the most amazing, brightest thought leaders around the world and that’s a function of our size. It’s why I could recruit a chief investment officer the caliber of Russell Read.”

Read joined the APFC in May 2016. He has also served as CIO for CalPERS, the \$330 billion California state pension fund, among other positions, and holds master’s degrees from the University of Chicago and Stanford University as well as a Ph.D. in political economy from Stanford.

Being able to participate on the global scale from a small town like Juneau offers other benefits, such as a work-life balance that is lost in the mega cities, Rodell added.

“We save 170 hours in commuting time alone that you get back from New York if you come to Juneau. There’s no commuting time in Juneau,” she said with a laugh.

The four-hour time difference between New York and Juneau can be a challenge but is not always a deterrent, according to Rodell. Investing internationally requires odd hours and one knows that going in.

“If you’re a fixed income trader and you’re sitting at your desk when the markets open at 5:30 in the morning; you’re done by 1 o’clock in the afternoon,” she noted. “You know what that means in the summer in Alaska?”

It’s changing times for nearly everyone in Alaska and Rodell said she doesn’t want to see the state’s biggest asset fall by the wayside or be pulled apart by competing pressures. She summed her thoughts up by reciting a question posed at a recent conference she attended.

“Fifty years from now, what do you think your grandchildren will wish you had invested in today?” Rodell recalled. “My answer was the Permanent Fund because I worry that we’re not thinking about the Fund itself anymore; that we’re taking the Fund for granted in some ways and that it will be this perpetual ongoing resource.”