

Permanent Fund trustees seek inflation-proofing bill

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The folks in charge of Alaska’s largest asset made few, but significant, requests of the Legislature at their meeting Sept. 28.

The Alaska Permanent Fund Corp. Board of Trustees unanimously passed a resolution directing corporation executives to pursue legislation to strengthen inflation-proofing mechanisms for the corpus of the \$61 billion Permanent Fund, and passed motions requesting an exemption from state procurement codes and to add up to 10 new employees to its Juneau headquarters.

CEO Angela Rodell said during the meeting that inflation-proofing the roughly \$40 billion corpus of the Fund — the portion made up of resource royalty and inflation-proofing payments — is the only way to truly ensure growth in the Fund.

The Fund holds another nearly \$8 billion in unrealized gains from investments, according to its August balance sheet.

The trustees also passed a more specific motion asking that inflation proofing be accounted for as part of the Fund’s annual statutory net income calculation. Doing so would prioritize the inflation-proofing payment to be made before tallying the Fund’s gains or losses in a year.

Natural Resources Commissioner Andy Mack, taking part in his first meeting as a trustee, said there are other ways to address inflation proofing beyond making it a part of the income calculation, but added he feels “strongly it should be accounted for in the legislative process.”

Mack, a former director at the Alaska private equity fund Pt Capital, was just appointed to the APFC board by Gov. Bill Walker Sept. 27 to replace retired Revenue Commissioner Randy Hoffbeck.

Similarly, new Revenue Commissioner Sheldon Fisher said he totally supports strengthening inflation-proofing provisions but he’s not sure if the way proposed in the motion is the best way to do it. He noted the passive inflation-proofing provision in Senate Bill 26, Walker’s bill to establish an annual percent of market value, or POMV, draw from the Fund to pay dividends and support government services.

Historically, the Legislature has made the inflation-proofing payments to the corpus of the Fund on an as-needed basis.

Inflation payments are transferred from Earnings Reserve Account to the corpus that is off limits to spending by the Legislature. The Earnings Reserve, which holds the Fund's investment gains and is the only portion of the Permanent Fund that is available for appropriation by the Legislature, currently has more than \$13 billion.

However, the last two fiscal years the Legislature has broken from tradition and chosen not to inflation-proof the corpus of the Fund while the expectation of employing a POMV draw on the Earnings Reserve has grown.

SB 26, passed by both the House and Senate last session but needing reconciliation of details in a conference committee before heading to the governor's desk, calls for any cash in excess of four times the annual POMV draw amount left in the Earnings Reserve after the draw to be automatically transferred to the corpus as an inflation-proofing payment.

With the total POMV draw expected to start at roughly \$2.5 billion, the Earnings Reserve as it stands now is almost large enough to trigger those payments.

Rodell said in an August interview with the Journal that the precedent set by the Legislature the last two years is worrisome.

It has been helpful that inflation rates have been very low of late; two years ago the payment would've been just \$47 million, she said. But it jumped to more than \$500 million last year and is up to \$693 million for the current fiscal year, according to APFC calculations.

The corporation typically seeks support from the governor first when proposing legislative changes, but APFC leaders can go to individual legislators to find a bill sponsor if need be.

Walker's spokesman Jonathon Taylor said it is too early to speculate on what legislation the governor will support for the upcoming regular session in January.

Walker's former DNR Commissioner Marty Rutherford, who he appointed to the board after she resigned in July 2016, said inflation proofing should be dealt with irrespective of the pending POMV legislation, which is largely expected to be fully passed next year.

"I feel very uncomfortable with not pushing the Legislature to deal with inflation proofing because it is in fact a future generations' protection," Rutherford said, echoing Rodell's sentiment.

Other requests

Getting an exemption from state procurement codes for investment management-related contracts would allow the corporation to more efficiently contract with outside investment managers and consultants on often time-sensitive investments involving proprietary information, according to Fund leaders. The exemption would also require legislative action.

In an interesting move, the trustees also approved two proposed fiscal year 2019 budget amounts for the APFC, a \$174.2 million "status quo" budget, which would be up from a \$151 million budget for the

current fiscal year. The second budget — including 10 new positions — would actually be \$5 million less than the status quo at \$169.2 million.

The APFC budget is funded out of the Earnings Reserve.

Operations Director Laura Achee said the 10 new jobs, if approved by the Legislature and Walker, would add to the corporation's internal investment programs and reduce the need for expensive outside managers, thus reducing the overall budget.

The budget proposal with the 10 new personnel has \$136 million for outside investment manager fees; the status quo budget has a \$145 million line item for those costs.

The corporation in charge of \$61 billion currently has 42 employees.

"The Fund has grown \$9 billion in the last 15 months and growth in the size of the Fund also triggers growth in the request that we need to have the tools that we need to have in order to be able to manage the Fund in the way that the people of the state of Alaska expect," Achee said.

The new positions would include four investment officers, three finance positions, two IT staff and one office administrator, she said.

Additional IT support is needed as the Fund is invested more and more in global markets, which requires tech help be available 24/7 for traveling investment officers, Achee explained.

She also said the industry standard for middle and back office support staffing has grown to about 2.5 support personnel for each investment position and the corporation doesn't come close to that now.

"For every front office (investment) position we have 0.8 middle or back office staff, so we're very much understaffed in that area, in that scenario, where we need to catch up if we're going to continue to support the work that our front office is doing," Achee said.

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