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## **Fitch: Policy Options Allow Flexibility for Alaska's Permanent Fund.**

Fitch Ratings-New York-09 November 2017: The use of Alaska's Permanent Fund Earnings Reserve (PFER) to help fund state operations may result in wide ranging outcomes, from PFER exhaustion in the next decade to an indefinite life. However, Fitch Ratings believes the state has significant flexibility to take various policy actions that could greatly influence its ability to use this source of funds over the long term.

The state of Alaska is facing an approximately \$2.5 billion annual budget shortfall due to weakness in natural resource-based revenues. A new report from Fitch explores the sustainability of funding a significant part of state expenses on a continuous basis from the PFER, the "spendable" portion of the larger Permanent Fund (PF). Accessing the corpus of the PF itself requires a state constitutional amendment.

Alaska's PF was created 40 years ago, drawing annually from state oil royalty revenues, and currently has a total value of approximately \$60 billion. The fund provides significant financial flexibility to the state, allowing it to tap into earnings generated by the PF via the PFER, the account to which accumulated PF earnings accrue. The current value of the PFER is approximately \$13 billion.

Fitch's analysis shows that state policy actions are key to strategic use of the PF. "The amount of dividend payments made to state residents and other policy decisions can significantly impact the amount available to the state to fund its operations over time," said James Batterman, Fitch Senior Director. Consequently, policy with regard to the allocation of PF income to dividend payments, along with other considerations, factor significantly in the length of time the state could rely on this source of funding.

Regardless, the earnings generated by the PF and the corpus of the PF itself are positive credit factors. "Fitch views the state's ability to draw on the assets of the PFER as a significant budget cushion, subject to practical limits," said Marcy Block, Fitch Senior Director.

The full report, "Analyzing Alaska's Permanent Fund" is available at [www.fitchratings.com](http://www.fitchratings.com).

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