HOW PERMANENT TRUST FUNDS HELP STATES SAVE FOR THE LONG TERM

Tuesday, Aug. 30, 2 p.m. EDT
FREE CSG eCademy
Presented by CSG West
From Volatile Severance Taxes to Sustained Revenue

Key recommendations to improve state sovereign wealth funds
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What are sovereign wealth funds?

What purposes can sovereign wealth funds serve?

How does that purpose inform these funds’ governance and management?
Sovereign wealth funds

**What?** Investment funds created and managed by sovereign nations or U.S. states

**Why?** Generating investment returns to meet specific, long-term public goals

For our research, we focused on **severance-tax based** sovereign wealth funds in the United States.
U.S. States manage different types of funds
Investments differ between operating and non-operating funds

Operating Funds
- General Funds
- Education Funds
- Medicaid Funds
- Rainy Day Funds
- Capital Improvement Funds

Non-Operating Funds
- Pension Funds
- Accounts for Other Post-Employment Benefits
- Land Trusts
- Sovereign Wealth Funds
- State College Trust Funds
Severance tax-based sovereign wealth funds in the United States

Fund Type
- **Severance tax-based fund**
- **No fund**
- **Proposed via ballot initiative**
Purpose should guide governance and management

Purpose

Governance Policies
- Management responsibility
- Investment guidance
- Transparency

Fund Usage
- Managing investment earnings
- Accessing the principal

Risk Management
- Asset allocation
- Expected return
- Impact on operating budget
Three purposes for sovereign wealth funds

Inter-generational savings
• Norway’s Government Pension Fund Global (a.k.a., the Petroleum Fund)

Specific, targeted development
• United Arab Emirates’ Mubadala Development Company (PJSC)

Budget stabilization
• Mexico’s Oil Revenues Stabilization Fund (FEIP)
Purposes for severance tax-based funds

Fund Purpose

- Green: Inter-generational savings
- Blue: Specific, targeted development
- Stripes: Proposed via ballot initiative
Purpose 1: Inter-Generational Savings
Intergenerational savings: Alaska Permanent Fund

Year Created: 1976

Balance: $53 billion

Purpose: To “Conserve a portion of the state's revenue from mineral resources to benefit all generations of Alaskans”

Can State Withdraw from Principal: No

Use of Investment Income: Reinvested in Fund

Other Notes: Managed by the independent Alaska Permanent Fund Corporation
Purpose 2: Targeted Development
Targeted development: West Virginia’s Future Fund

Year Created: 2014

Balance: $0

Purpose: “Enhancing education and workforce development; economic development and diversification; infrastructure improvements; and tax relief measures for the benefit of the citizens and businesses of the State of West Virginia”

Can State Withdraw from Principal: No (until 2020)

Use of Investment Income: Reinvested in Fund
Purpose 3: Budget Stabilization
U.S. states achieve budget stabilization through short-term operating funds – rainy day funds
Research by Pew on Rainy Day Funds

Three Pew reports to date have identified elements of sound rainy day fund design

1. **Managing Uncertainty**
   - Causes and effects of volatility on state budgets

2. **Building State Rainy Day Funds**
   - Best practices for depositing money into rainy day funds

3. **Why States Save**
   - Defining purpose and right-sizing rainy day funds

[pewtrusts.org/fiscal-health]
Next steps for state policymakers

• Identify the purpose of the sovereign wealth fund and clearly state its goals in U.S. state law.

• Establish policies for the governance, investment, and public disclosure of the fund’s activities in U.S. state law.

• Provide statutory or constitutional guidance regarding withdrawals from the principal

• Consider volatility in investment earnings when deciding their use in law.
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Questions?

Please submit them in the question box of the GoToWebinar taskbar.