

ALASKA STATE LEGISLATURE  
**SENATE JUDICIARY COMMITTEE**

May 6, 2002  
1:54 p.m.

**MEMBERS PRESENT**

Senator Robin Taylor, Chair  
Senator Dave Donley, Vice Chair  
Senator Gene Therriault  
Senator Johnny Ellis

**MEMBERS ABSENT**

Senator John Cowdery

**COMMITTEE CALENDAR**

CS FOR HOUSE BILL NO. 330(FIN) am  
"An Act relating to providing alcoholic beverages to a person  
under 21 years of age."

MOVED SCS CSHB 330(JUD) OUT OF COMMITTEE

CS FOR HOUSE BILL NO. 304(2d RLS) am  
"An Act relating to the education fund and the infrastructure and  
economic development fund, to the market value of the permanent  
fund, to distribution of the income of the permanent fund, and to  
the determination of net income of the mental health trust fund."

HEARD AND HELD

**PREVIOUS SENATE COMMITTEE ACTION**

HB 330 - No previous action to record.

HB 304 - No previous action to record.

**WITNESS REGISTER**

Representative Norm Rokeberg  
Alaska State Capitol  
Juneau, AK 99801-1182

**POSITION STATEMENT:** Explained the contents of HB 330

Ms. Anne Carpeneti  
Assistant Attorney General  
Department of Law  
PO Box 110300

Juneau, AK 99811-0300

**POSITION STATEMENT:** Answered questions about HB 330 and suggested an amendment

Marti Greason

MADD

No address provided

**POSITION STATEMENT:** Supports HB 330

Representative Bill Hudson

Alaska State Capitol

Juneau, AK 99801-1182

**POSITION STATEMENT:** Explained the contents of HB 304

Ms. Linda Reynolds

No address provided

**POSITION STATEMENT:** Opposed to HB 304

#### **ACTION NARRATIVE**

#### **TAPE 02-26, SIDE A**

Number 001

**CHAIRMAN ROBIN TAYLOR** called the Senate Judiciary Committee meeting to order at 1:54 p.m. Senators Donley, Therriault and Chair Taylor were present. The first matter to come before the committee was HB 330.

#HB330

#### **HB 330-PROVIDING ALCOHOL TO MINORS/ BREWPUB LIC.**

REPRESENTATIVE NORM ROKEBERG, sponsor of HB 330, told members that on July 9, 2001, police officer Justin Wollam and three others were killed when Robert Esper crossed the median of the Glenn Highway and collided with Officer Wollam's patrol car. Esper was suspected of driving while intoxicated with a blood alcohol level of .091. Representative Rokeberg stated:

While investigating the events leading up to the tragic and deadly accident, police discovered that Esper and his underage friends had been drinking at a party where alcohol was furnished by two adults. Both men pleaded guilty to furnishing alcohol to minors and were sentenced on February 20<sup>th</sup> of this year. Currently furnishing alcohol to a minor is a class A misdemeanor, subject to no more than one year in prison and a fine of not more than \$5,000.

What HB 330 does, quite simply, is increase the penalty for an adult who furnishes the alcohol to a class C felony, but only in those cases where the minor goes on to negligently cause the death and or serious physical injury of another while acting under the influence of alcohol.

Mr. Chairman, on the House floor one of my colleagues added on lines 12 and 13 the words 'operating motorized equipment, firearms, or watercraft' to further tighten the implementation of this particular bill. In your deliberations today I ask that you look at the words 'motorized equipment' and perhaps substitute 'motorized vehicle' because conceptually - because there is no definition for 'motorized equipment' in state statute. That concludes my testimony, Mr. Chairman. I'd be happy to answer any questions.

CHAIRMAN TAYLOR took public testimony.

MS. ANNE CARPENETI, Assistant Attorney General, Department of Law (DOL), said that DOL has supported HB 330 all along but the term "motorized equipment" is not defined in statute. Alaska statute does contain a definition of "motor vehicle" that could be cross referenced to AS 28.40.100; and definitions of "firearm" and "watercraft" that could be cross referenced to Title 11. She thought the cross references would make the bill clearer.

CHAIRMAN TAYLOR asked if the cross-references should also be noted within the body of the language.

MS. CARPENETI said that adding to the definitions in Section (2) (A) and (B) would work better.

CHAIRMAN TAYLOR asked Ms. Carpeneti to draft an amendment with the changes she suggested.

MS. CARPENETI agreed to do so.

MS. MARTI GREASON, representing Mothers Against Drunk Driving (MADD), thanked Representative Rokeberg for introducing HB 330 and said that national research, as well as anecdotal self-reporting at an Anchorage middle school, show that when young people choose to drink, they frequently start around the age of 12. All have had the assistance of an adult to obtain alcohol. Alcohol is involved in too many deaths and injuries of young people. MADD believes that adults who provide alcohol to underage persons who, while under the influence, cause injury or death must be held to a higher standard of responsibility and

culpability. MADD supports HB 330 to accomplish that objective.

MS. CATHIE MAURO told members that she lost her 14 year-old daughter in the July 9 accident. She first started getting support for making this action a felony in August by contacting her legislators and MADD. With their support, HB 330 has gotten this far. She expressed concern about some of the language changes made during the committee process. She originally wanted adults who furnish alcohol to children to not only be accountable for the children's actions while impaired by the alcohol, but also accountable for the lives of the children they provide the alcohol to. She said if one removes the car from the July 9 scenario, the children could have died from alcohol poisoning or hypothermia. She noted that many things can happen when children are impaired by alcohol. She suggested that fine-tuning HB 330 could save many lives. She asked that committee members not wait until they experience a similar tragedy before doing more to deter adults from furnishing alcohol to children.

CHAIRMAN TAYLOR noted the arrival of Senator Ellis.

REPRESENTATIVE ROKEBERG repeated that the House floor amendment added the words "operating motorized equipment, firearms, or watercraft" on lines 12 and 13. He noted the intent of the floor amendment was to narrow the scope of the bill.

SENATOR DONLEY asked for a synopsis of the floor debate on the amendment.

REPRESENTATIVE ROKEBERG said, in his opinion, the only reason for the debate was that his colleagues were feeling guilty about their own experiences in life. He believes they didn't wish to raise culpability to the level of a felony if an assault occurred that resulted in an injury and death. He said he personally disagreed but lost the debate.

SENATOR DONLEY asked if this bill will hold the adult who provides the alcohol responsible and charges the adult with a class C felony.

REPRESENTATIVE ROKEBERG said that is correct. He added one part of the issue is furnishing alcohol within a family. Under existing statute, a parent can give a child alcohol and a majority spouse can give a minority spouse alcohol. The issue becomes one of hosting and discussions on the House floor and in House committees centered around presumed liabilities if a minor secretly took alcohol. He said that is not what this bill covers and, because the standard is criminal negligence, there is no

*mens rea* for intent if a minor steals alcohol at one's home.

SENATOR DONLEY asked what the interrelationship is between this felony and the existing statutes that allow a parent to furnish a child with alcohol. He asked, "Are we only criminalizing the activity when it's - are we accelerating the criminal fine for only the activity that is currently a criminal activity or are we also creating some sort of criminal penalty when the providing of the alcohol is actually legal under existing statute but then there's a subsequent serious physical injury or death?"

REPRESENTATIVE ROKEBERG replied, "No. All we're doing here under the original bill before they put the motorized craft and stuff in was to create an aggravator if there was serious injury or death. That is all we're doing, basically creating an aggravator." He repeated the House floor amendment narrowed the scope.

CHAIRMAN TAYLOR suggested that the choices being offered are either to delete the House floor amendment or clarify it by deleting "motor equipment" and inserting the words "motor vehicles," which is defined in statute, and then providing for additional clean-up language, including statutory references to "firearms" and "watercraft."

SENATOR THERRIAULT asked Representative Rokeberg to recount the discussion on "motorized equipment" versus "motorized vehicle."

REPRESENTATIVE ROKEBERG said some wordsmithing was done to make sure that ATVs and snowmobiles were included.

SENATOR THERRIAULT noted that those vehicles will not be included in the definition of "motor vehicle."

MS. CARPENETI told members if the bill cross references AS 28.40.100, snow machines will be included.

SENATOR DONLEY said that he tends to agree that the original language is better because he can think of some scenarios involving activities other than operating motorized equipment, firearms or watercraft that this bill should apply to.

CHAIRMAN TAYLOR agreed. He suggested amending CSHB 330(FIN)am by deleting the words "operating motorized equipment, firearms or watercraft" on page 1, lines 12 and 13.

SENATOR DONLEY asked Chairman Taylor his opinion of retaining the word "acting" throughout the bill as that word was added by the

House Finance Committee.

CHAIRMAN TAYLOR questioned whether anything substantive was added to the bill by inserting the word "acting."

REPRESENTATIVE ROKEBERG explained that the word "acting" was included by the legal drafter to make the provisions symmetrical.

MS. CARPENETI said it was actually included by the House Finance Committee at her suggestion. The committee wanted to clarify that the person was acting under the influence of the alcohol that was illegally furnished. She was not sure its addition actually clarifies the causal relationship.

CHAIRMAN TAYLOR maintained that it does clarify that the adult can only be involved if the minor was under the influence of the alcoholic beverage received in violation of this section.

SENATOR DONLEY asked Ms. Carpeneti if she could recommend other language.

MS. CARPENETI said she would recommend using the House Judiciary Committee language.

CHAIRMAN TAYLOR maintained that Amendment 1 would return the bill to the House Judiciary Committee version. He then noted that without further discussion or objection, Amendment 1 was adopted.

There being no further discussion, SENATOR DONLEY moved SCS CSHB 330(JUD) from committee with individual recommendations and its accompanying fiscal notes.

CHAIRMAN TAYLOR announced that without objection, SCS CSHB 330 (JUD) moved from committee.

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2:15 p.m.

The committee took up HB 304.

#HB304

**HB 304-PERM. FUND INCOME/ DIVIDENDS/ FUNDS**

REPRESENTATIVE BILL HUDSON, sponsor of HB 304, informed members that HB 304 is one of several bills that the House has been working on over the last year to try to create revenue on a recurring basis to fill the fiscal gap. HB 304 adopts the recommendation from the Permanent Fund Corporation's board of

trustees. The board suggested the distribution of the earnings of the permanent fund change from an average of annual income to a percent of market value (POMV). The legislation creates the market value concept in the distribution scheme and identifies, in statute, the distribution on a 50-50 split with 50 percent deposited into the dividend fund and 50 percent deposited into a new education fund in the general fund. The House Finance Committee amended the bill to create a second fund, termed the infrastructure and economic development fund, with 20 percent deposited in it and 30 percent deposited in the education fund. The bill was amended on the House floor so that the full 50 percent will go directly into the education fund. He explained that the distribution of funds will not begin until FY 2004 so to begin to fill the fiscal gap in 2003, the bill calls for a transfer at the end of FY 2002 of \$300 million or the balance of the earnings reserve account, whichever is less, to the general fund.

REPRESENTATIVE HUDSON said if one looks at these changes long term, the first significant draw from the earnings of the permanent fund would occur in 2003: \$300 million to offset a \$798 million deficit. The House has gone further and introduced other legislation; HB 304 is just one piece of a larger plan. He noted that concern was expressed among House members about using a straight 5 percent. The possibility of using 7, 6, and then 5 percent was discussed but those two scaled down models were dropped in favor of the Permanent Fund Corporation board's proposal of 5 percent. He noted the adoption of the 5 percent automatically inflation proofs the market value of the fund predicated on annual earnings of 7.95 percent. The board recommended that the 5 percent payout would allow the fund to continue to grow and provide for dividends.

REPRESENTATIVE HUDSON referred to a chart in members' packets and said it was put together to present all elements discussed by the House to address the fiscal gap. The third line from the bottom shows the effective inflation proofing rate, which amounts to a little less than 3 percent. He said HB 304:

- protects the corpus of the permanent fund;
- grows the earnings reserve account from \$2.7 billion this year to \$9.4 billion in 2010;
- increases the market value from \$24.6 to \$32.9 billion; and
- provides for a dividend that is not capped but subject to grow according to the annual earnings of the permanent fund.

REPRESENTATIVE HUDSON added that models indicate that by 2010,

the dividend will be alive and healthy and the contribution by FY04 will be about \$633 million to offset the deficit and \$633 million to distribute to dividends. According to the models, dividends will not drop below \$1,000.

REPRESENTATIVE HUDSON said HB 304 is revolutionary and controversial. The proponents of this bill believe that continuing to fill the fiscal gap by drawing from the constitutional budget reserve fund will exhaust it by 2005, leaving the next legislature and governor with no place to go except the earnings reserve of the permanent fund. That will predicate the beginning of the end of the dividend program. He offered to answer questions.

CHAIRMAN TAYLOR asked how much the permanent fund earned last year.

REPRESENTATIVE HUDSON said the permanent fund actually lost money over the last couple of years. He deferred to Mr. Kelly for a detailed answer.

CHAIRMAN TAYLOR asked if HB 304 is predicated on a draw of 5 percent of the market value so that 15 percent would be drawn out over a three-year period even though the earnings during that same time period could be negative.

REPRESENTATIVE HUDSON said it would be averaged over five years, as it is now, but that Chairman Taylor is correct.

CHAIRMAN TAYLOR said it would be even worse if the income was averaged instead of basing it on actual income. He stated:

If you've had two or three good years - or four good years as we've had just recently - we had four very good years, then we had a bad year, two bad ones I guess. If you average that over five, you're going to indicate a market value of the fund that's inflated above what [the] actual value of the fund is and when you take your 5 percent back as against the fund, you're actually taking more than 5 percent out of the corpus - aren't you - because it has to come from some place?

REPRESENTATIVE HUDSON said, according to law, money cannot be taken out of the corpus except to invest. All of the draws would come out of the earnings reserve account.

CHAIRMAN TAYLOR said that in using the average, the earnings

reserve account would be exhausted within a couple of years. He asked if it contains about \$3 billion now.

REPRESENTATIVE HUDSON said it has \$3 billion plus and is anticipated to grow. The 5 percent pay-out was the recommended pattern given to House Finance Committee members by the Permanent Fund trustees. They said all of the major trusts are better off to set up a fixed draw on an annual basis, subject to automatic inflation proofing. He said he doesn't think it matters much whether the annual net earned interest or the 5 percent of market value (POMV) pay-out method is used. According to the experts, using the POMV is the best way to provide for the most stable draw. The bill requires the payment to be prorated down if less money is in the earnings reserve account so that no draw can be made from the principle of the permanent fund.

CHAIRMAN TAYLOR argued that the proration would result in a lessening of income back to the state for general fund purposes.

REPRESENTATIVE HUDSON said that is true.

CHAIRMAN TAYLOR asserted that would mean there would not be enough money to run government.

REPRESENTATIVE HUDSON said the bill is not designed to run the government; it is designed to draw a portion of what is necessary to run the government. He said an income tax would bring in another \$250 million. He stated:

We're simply trying to have a balanced draw across from a number of different sources - payroll and everybody who has a dividend will pay something into government with this whole instance here...." He said he knows this approach is controversial because it will, if it passes, distribute half of the 5 percent payout into dividends and half into government to offset the deficit.

CHAIRMAN TAYLOR asked about inflation proofing.

REPRESENTATIVE HUDSON said inflation proofing is automatically retained within the fund by virtue of limiting the payout to no more than 5 percent.

CHAIRMAN TAYLOR said that assumes a 7.9 percent return. He noted there is no inflation proofing this year.

REPRESENTATIVE HUDSON disagreed and said, "We would not distribute it, we retain it. We only distribute 5 percent."

CHAIRMAN TAYLOR said it would be retained in the earnings reserve account where it would be available for appropriation. He pointed out that the inflation-proofing amount has been deposited into the corpus of the fund.

REPRESENTATIVE HUDSON explained:

Well it's inflation-proofed the entire fund because we've set it up now on a market value concept. We now consider - I think we always have anyway - that the corpus of the fund, the realized gains and the unrealized gains, are all a part of the permanent fund. By setting up the POMV - you're right in this respect Robin, we are, according to this draft, essentially maintaining the inflation-proofing in the earnings reserve account and, in years past, we have by statutory action on an annual basis, transferred the money directly into the corpus of the permanent fund and that's why we've seen the - you know we've got about \$5.5 billion into the corpus of the permanent fund that is there on the basis of legislative action over the last 20 years. We have transferred that inflation money into the corpus, in addition I might add, to other money that has stacked up after dividends were paid according to the formula that we have in existing law and periodically over the years - and I think we've got another \$4.5 billion that is into the corpus of the fund by virtue of those actions. So we've had the automatic distributions according to the constitutional formula and the action by those of us who have been around here for the last 20 some odd years of putting in the inflation proofing in the corpus of the fund and additional contributions periodically when the earnings reserve account got up to as much as \$8 or \$9 billion.

Now what we'll have if we adopt this measure is that we'll have the, by virtue of the 5 percent payout, we'll have the balance of - let's say they make 8 percent or 7.9 percent - the balance of that annual earnings will be maintained in the earnings reserve account. That is a difference and you hit upon it right off the bat. In my original HB 335, I had those monies automatically being transferred over to the corpus of the fund, as we do at the present time. Over the hearing of this bill, and this has come through the Finance Committee and other areas there obviously, other people felt that it should just simply be stacked

into the earnings reserve of the permanent fund. So that's where you see the earnings reserve rising from \$2.7 to \$9 billion, but you also see the corpus of the fund rising from \$21 billion to about \$23.5 billion, roughly speaking. So, you have a lesser growth but there's nothing in here that precludes, you know, us from here on out, as that account gets, say, well above where we need to have [indisc.] assurance for stability of transferring \$1 billion as we always have. Because we're doing this statutorily instead of constitutionally, everything we have been doing in the past we can continue to do in this legislation so...

CHAIRMAN TAYLOR said the sad part is that the legislature has not always made the transfers. He put the last amendment on to the budget bill to convey the excess earnings that were retained in the undistributed income account of the permanent fund about three or four years ago and the House refused. He stated:

As a consequence, we've not shipped another one over to you guys 'cause we figured you'd just turn it down again. That's the only reason you've got the amount of money to play with sitting in the undistributed income account that you've got right now. Rick Halford did it for many years. I put the last two on myself. The first one succeeded and the second one was failed by the House so that people could retain what they hoped would be a larger amount of money within the undistributed income account that they could then access with 21 votes because people wanted to spend it on government and I felt it ought to go back into the fund. Because that had been the previous attitude and policy around here that we put money back into the corpus of the fund, where it wasn't available on a simple majority vote, and by so doing, you're correct. We've grown the fund by over \$8 billion. I'm very proud that we did that. Had we left it in an undistributed income account where you're proposing to keep all of it now, including the 'inflation proofing' of the fund - you never have a time when inflation proofing goes back to the fund, do you?

REPRESENTATIVE HUDSON said it is a simple matter of leaving it the way it is, which was the will of the House. His interest was to put it all back in the corpus of the permanent fund.

CHAIRMAN TAYLOR said what was to be used to inflation proof the fund will now sit in an account that's available for appropriation by the legislature. He then asked if a shorter-term

investment regime is required for those funds.

REPRESENTATIVE HUDSON said not necessarily. He believed the return would be more stable if it is maintained in the corpus of the permanent fund. He deferred to Mr. Kelly for a detailed explanation.

CHAIRMAN TAYLOR said that by placing the five year averaged earnings into a constitutional budget reserve account, it would be invested on a much shorter term basis and it is not available for long term equity investment because it is available for appropriation at any time by the legislature and easy access is necessary. He stated that further diminishes the earning capacity of those monies, especially when there is a down cycle in both bonds and long term interest issues.

SENATOR THERRIAULT said he is glad the 6 and 7 percent provision was removed from the bill because he feels very protective of inflation proofing the fund. He then asked why Representative Hudson why he chose to go with this mechanism instead of the mechanism suggested by the trustees. He said it is his understanding that when the legislature proposes a constitutional amendment, the public is suspicious of complex issues with regard to the Constitution.

REPRESENTATIVE HUDSON said as the bill worked its way through the House, members preferred making the statutory changes that are a mirror image of what the Permanent Fund board suggested doing constitutionally. House members were a little nervous about moving forward with a constitutional amendment this year.

SENATOR THERRIAULT asked if Section 11 repeals the existing statutory inflation proofing mechanism.

REPRESENTATIVE HUDSON said it does.

SENATOR THERRIAULT expressed concern that if the legislature adopts the methodology in HB 304, inflation proofing will be repealed. If a future legislature makes some other statutory change, there is no guarantee that inflation proofing will be put back into the statutes.

REPRESENTATIVE HUDSON said the limitation of the distribution of income to the 5 percent payout is the mechanism that most large trust funds use in order to guarantee that inflation proofing is maintained. He said:

If you feel uncomfortable with having the inflation proof accrue to the earnings reserve account, which I [indisc.] is far more accessible - it's not accessible at all if it goes into the corpus of the fund. So

that's the question and on my side I was not able to essentially get this amendment in by bill. My original bill had all of the inflation proofing essentially distributed to the corpus of the permanent fund so that's the choice of the deliberative process.

SENATOR THERRIAULT asked if the education and infrastructure funds will be sub-funds of the general fund.

REPRESENTATIVE HUDSON said they are indicated funds, not dedicated funds.

TAPE 02-26, SIDE B  
2:41 p.m.

REPRESENTATIVE HUDSON said in regard to Chairman Taylor's concern about inflation proofing, the current situation, as he understands it, is that in the earnings reserve account, the unrealized gains are the inflated value of the stock that is maintained in the corpus of the permanent fund. Therefore, if a stock increases by \$10 million in value over a year, that \$10 million is maintained in the unrealized gains of the permanent fund. He said if one looks at the earnings reserve account, the realized gains were funds that were invested so that they could be accessed easily and deposited in the general fund. So, other than the fact that inflation proofing is not deposited into the corpus of the permanent fund automatically, the bill contains the suggestions by the Permanent Fund trustees. He believes it will sustain, maintain and actually grow the permanent fund dividends over time and its purpose is to split the income.

CHAIRMAN TAYLOR expressed concern that Representative Hudson has estimated a growth rate of 7.5 percent and that all schedules into the future are based on that. The hard money of 5 percent is taken based on whatever the market value of the fund is at a given moment in time. Market value means unrealized gains, which does not become money in one's pocket until the stock is actually sold. He said he can imagine that a real disaster would have occurred if this system was in place two years ago because the market value of the permanent fund's stock was much higher than it is now and the high number would have been used as an estimate.

REPRESENTATIVE HUDSON replied the average of the four previous years and the current year would be used for the estimate.

CHAIRMAN TAYLOR said he is suggesting that HB 304 uses an automatic take of 5 percent and, if calculated today, would be based upon an average that had \$28 billion in value several years ago and \$22 billion in value today. He noted the \$6 billion loss is not reflected because it has been averaged in. He noted the 5

percent will be drawn on an average of \$24 billion. And, the income left over after 5 percent will be used to inflation proof the fund, but that amount will be zero because the fund had zero income. He stated:

Then we're going to say that we're going to inflation proof the fund based on the extra income left over after 5 percent. This year there was zero income. So, as there was zero income, there's zero that goes into inflation proofing because the only inflation proofing, it appears from your formula, is that money left over that is income after the 5 percent draw has been made. That is then inflation proofing - that inflation proofing not going back into the fund but instead goes into the same bucket that you're going to draw the next five years - or the next year's 5 percent out of no matter what the market does. This thing doesn't have anything to do with market anymore. It doesn't have anything to do with income anymore. All it has to do with is an annual draw of 5 percent out of a bucket over here that we've now - we used to call it undistributed income account and constitutional budget reserve and now you're going to move that fund into the constitutional budget reserve account which requires three-quarter vote to access. That's why your friends were so willing to vote for it.

REPRESENTATIVE HUDSON clarified that nothing from HB 304 will be going into the CBR.

CHAIRMAN TAYLOR said it will then be accessible by 21 votes in the House.

REPRESENTATIVE HUDSON replied, "Absolutely." He then clarified that 50 percent of the 5 percent payout will be distributed to the permanent fund dividend account, and 50 percent to the other account, or the amount that is in the earnings reserve account, whichever is less. He responded:

Robin, it's really, I think at any rate, the same as we have at the present time except we're using a percent of market value for even distribution of the income as opposed to an average of the annual earnings over the last five years so - that's what they're doing now, they're taking 21 percent of the five-year average and they're distributing that to - by law. You can look back and see the statutes. We distribute 50 percent of that to the permanent fund and then we use the CPI and all that type of stuff and we distribute the inflation

proofing into the corpus of the permanent fund. As I said, that's your argument with my legislation as you have it before you now. And then we take the balance of it and it just simply is invested into the earnings reserve account. That's why the earnings reserve account got all the way up to \$8 billion at one point in time and then we had boom-boom, she dropped down with those terrible two years there. This will establish it on a prorated basis. If it falls below it will never get below whatever's in the earnings reserve of the permanent fund. I really urge you to take a good hard look at this and call some of these financial experts in here because what we've tried to do is to listen to the experts and figure out how can we best protect the fund and, at the same time, fairly and equitably distribute the income.

CHAIRMAN TAYLOR repeated his concern about using an automatic 5 percent that is not dependent upon any income coming into the fund. He said that he realizes that over time that might work for major trust funds, but he is very frightened of an inflationary situation during the Carter presidency with 18 percent inflation coupled with a 5 percent draw whether or not the market performed well. He then noted the committee would have to recess to attend a majority caucus and that he would continue the hearing on Wednesday. He then asked Ms. Reynolds to testify before the committee recessed.

MS. LINDA REYNOLDS said she shares Chairman Taylor's concern and that HB 304 is a way to use the permanent fund for government expenses. She asked what is to stop the legislature from using 5 percent this year but a higher percent over the years. She noted that Alaska state government spends \$48,000 for a family of four now. The public has asked that government spending be controlled and that private sector growth of natural resources be opened up to generate revenues. She said the legislature does not seem to be addressing private sector jobs in the state. Instead, the state is going toward a socialistic system in which it will take the wealth of Alaska to fund government. She said that history shows that socialism is not the answer. She emphasized the need for responsible economic development of renewable resources. She noted that using the permanent fund dividend to fund government services will be taking money from the poor.

CHAIRMAN TAYLOR thanked Ms. Reynolds. He announced that HB 304 would be heard again on Wednesday, at which time Mr. Kelly would testify.

SENATOR DONLEY asked for information from the Permanent Fund Board of Trustees on the true national average for the foundation

payouts.

There being no further business to come before the committee,  
CHAIRMAN TAYLOR adjourned the meeting at 2:58 p.m.

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