

HOUSE FINANCE COMMITTEE
January 14, 2003
1:43 PM

TAPE HFC 04 -03, Side A

CALL TO ORDER

Co-Chair Harris called the House Finance Committee meeting to order at 1:43 PM

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Kevin Meyer, Vice-Chair
Representative Mike Chenault
Representative Eric Croft
Representative Hugh Fate
Representative Richard Foster
Representative Mike Hawker
Representative Reggie Joule
Representative Carl Moses
Representative Bill Stoltze

MEMBERS ABSENT

None

ALSO PRESENT

Representative David Guttenberg; Representative Dan Ogg;
Representative Harry Crawford; Representative Beverly Masek;
Representative Ralph Samuels

PRESENT VIA TELECONFERENCE

None

GENERAL SUBJECT(S):

**OVERVIEW: PERCENT OF MARKET VALUE SUBCOMMITTEE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 23rd Legislative Session, contact 465-2156. After the 23rd Legislative Session they will be available through the Legislative Library at 465-3808.

LOG	SPEAKER	DISCUSSION
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000	Co-Chair Harris	Convened the House Finance Committee meeting at 1:43 p.m.
158	Vice-Chair Meyer	Explained that Co-Chair Williams asked him to head up the Percent of Market Value Subcommittee (POMV), at the end of the last session, to discuss the concept in different places around the state. The Senate also has a POMV subcommittee chaired by Senator Ralph Seekins, which met in other communities. Representative Hawker chairs the House Special Committee on Ways & Means, which also met in various towns. Vice-Chair Meyer introduced the members of the POMV committee and explained that Representative Hawker replaced Representative Whittaker.
439	Vice-Chair Meyer	explained that the meetings were informational presentations with the Permanent Fund Board and were not an attempt to gain public support. The public was invited and encouraged to testify. He observed that Kenai testifiers expressed concern that if there were more money, state spending would increase.
531	Vice-Chair Meyer	Encouraged consideration of Representative Stoltze's bill, to require a spending cap.
613	Vice-Chair Meyer	Elaborated on the concerns and perceived disadvantages of the POMV concept including whether it is necessary, the pressure to use some of the money as state revenues become tighter, and whether it will limit the legislature's flexibility once it's in the state Constitution.
737	Vice-Chair Meyer	Maintained that the Permanent Fund Board is comfortable with a 5% payout based on an 8% return with 3% to protect the Fund. Observed that concern has been expressed that the principal would have to be used for the 5% payout. Some years the Fund will earn up to 12%; Vice-Chair Meyer asserted he's in agreement with a 5% payout and asserted that the Fund would achieve 8% over the long term.
847	Vice-Chair Meyer	Encouraged the Subcommittee to move HJR 26 [POMV legislation] when it's heard January 20;
947	Vice-Chair Meyer	In summary, he stated that HJR 26 helps ensure a good dividend, protects the Fund and lets all Alaskans vote. There are

		minor differences between the House and Senate versions.
1150	Representative Chenault	Expressed that it's a subject the "grass roots" citizens need to look at rather than assembly or chamber of commerce people whom he feels may have underlying reasons for voting for the POMV. The legislature needs to get the information out so people can make an informed decision. He concluded that the Percent of Market Value Board came out with solid information.
1457	Representative Joule	Pointed out that this process has been on-going for several years with efforts to move a measure from the House, and expressed his support of the process and noted that the discussion is being expanded outside the legislature.
1705	Co-Chair Harris	Thanked Vice-Chair Meyer and referred to Governor Murkowski's State of the State Address that opened up the arena of management of the Permanent Fund. He observed that if the public doesn't want to use the Permanent Fund to fund state government, then Alaska's choice is limited to taxation and natural resource development. Co-Chair Harris stressed the extreme importance of this issue.
1958	Representative Croft	Noted that currently there is absolute protection of the Fund's principal with spending of its accumulated earnings. Although he agreed there is cause to move toward POMV, he stressed that the current formulation is a safe one because the state can't spend what it hasn't earned: the danger of POMV lies in spending what hasn't actually been earned and even invading the principal of the Fund, which has never been allowed. The trade-off or benefit is automatic inflation-proofing.
2140	Representative Croft	Continued to discuss rates of return and average inflation.
2248	Representative Croft	Emphasized the risk is asking Alaskans to make permanent changes and stressed being clear and honest with the people. He questioned how to divide the earnings.
2421	Representative Croft	Percent of Market Value can't be innocuous and affect dividends and at the same time, be the cornerstone of a fiscal plan diverting that money to state government. Representative Croft rejected the idea that it is a choice between taking a substantial portion of the

		people's dividend or facing financial collapse when, in fact, Alaska contains North America's largest deposit of natural gas.
2632	Representative Croft	Asserted there are significant alternatives that involve resource development rather than taxation.
2710	Co-Chair Williams	Noted there will be more time to debate this issue later this session.
2811	Representative Hawker	Acknowledged that Representative Croft raised legitimate concerns and his debate was well framed.
2912	Vice-Chair Meyer	Said the [PF] Board will answer the concerns voiced by Representative Croft.
3015	Representative Hawker	Framing the discussion in broader perspective, Representative Hawker discussed the evolution of the House Special Committee on Ways and Means (HSCWM) membership and its targets and objectives. HSCWM started with the widest possible breadth of fiscal philosophy with legitimate divergence of opinion among the members.
3413	Representative Hawker	Discussed the five components of the committee's Comprehensive Fiscal Plan provided in a handout (copy on file.) These are not new points and have been brought before the body in previous years.
3714	Representative Hawker	Observed the interim was spent researching the background of the Permanent Fund and meeting with elected officials and school boards in communities including Unalaska, Fairbanks, Nome, Anchorage, Kenai, Soldotna, Palmer and Wasilla.
3918	Representative Hawker	Continued that all meetings were open and the meeting format included explanation of HR 6 and the three missions of the Committee.
4033	Representative Hawker	Stated he discovered a lot of misunderstanding even among elected officials about the budget deficit and budget situation.
4234	Representative Hawker	Referred to "Alaska's Fiscal Toolbox" in the handout.
4319	Representative Hawker	Explained the town meetings addressed cutting the budget to deal with the \$650 million deficit but said it would involve deleting essential state services that comprise 65% of the budget [see handout, Budget Cuts in Perspective].

4514	Representative Hawker	Referred to the graph provided by the Legislative Finance Division. He argued that today, on an inflation-adjusted per capita basis, we have cut the budget to pre-Pipeline levels. He asserted that fiscal discipline comes with consequences.
4625	Representative Hawker	Stated that because less than one-third of audiences at the community meetings had lived in Alaska when the Permanent Fund was created in 1976, the meetings needed to address the Fund's intent.
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4447	Representative Hawker	Representative Hawker read excerpts from the Permanent Fund "Statement in Favor of Proposition No. 2" and concluded that we need to ask where the state funds will originate when the resources of oil and gas are depleted. The Permanent Fund will not replace the people's collective responsibility.
4358	Representative Hawker	Discussed the 5% POMV payout concept, with a 50-50 split to dividends and public services.
4227	Representative Hawker	Quoted from the handout, Alaska's Dilemma: we only need to tax ourselves to the extent we are unwilling to use part of the Permanent Fund's earnings. Briefly discussed points in Governor Murkowski's State of the State Address including frugality, adopting a constitutional spending limit, the gas pipeline project, adopting endowment management for the Fund, the POMV, and structuring general revenue system components.
4044	Representative Hawker	Referred to a fiscal policy letter to Representative Hawker, dated October 29, 2003 and signed by numerous employers, nonprofits and other business representatives (copy on file.)
3957	Representative Hawker	Indicated articles appearing in newspapers across the state show emerging public consensus is in favor of these proposals.
3821	Representative Hawker	Asserted that the people voiced a lack of support for taxes.
3532	Representative Hawker	Stressed that Alaskans called for legislative leadership and solutions during the HSCWM committee meetings.
3357	Representative Hawker	Expressed hope of bridging these legitimate issues in the Administration

		and with the Minority.
3236	Vice-Chair Meyer	Asked Representative Hawker if there were "a central theme" people supported, such as sales or income tax, or use of the Permanent Fund earnings.
3143	Representative Hawker	The meetings skipped over taxes but he has concluded that a geographic difference exists with small, rural communities located off the Railbelt adamantly opposed to sales taxes and those on the Railbelt in favor of them. The public appears accepting of taxes as long as the budget is reduced to the "right level," with divergent opinion on what that might be.
2932	Vice-Chair Meyer	Concluded by stating that support or opposition for sales versus income tax depends on where you live.
2817	<u>ADJOURNMENT</u>	The meeting was adjourned at 2:51 PM