

HOUSE FINANCE COMMITTEE
June 23, 2004
3:43 P.M.

TAPE HFC 04 - 1, Side A
TAPE HFC 04 - 1, Side B

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 3:43 P.M.

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 Ethan Berkowitz, Representative Nick Stepovich; Cheryl Frasca, Director, Division of Management & Budget, Office of the Governor; Robert D. Storer, Executive Director, Alaska Permanent Fund Corporation, Department of Revenue;

PRESENT VIA TELECONFERENCE

There were no teleconference testifiers.

SUMMARY

HJR 101 Proposing amendments to the Constitution of the State of Alaska relating to and limiting appropriations from the Alaska permanent fund based on an averaged percent of the fund market value.

HJR 101 was reported out of Committee with a "no recommendation" and a fiscal impact note by the Office of Lieutenant Governor.

HJR 102 Proposing amendments to the Constitution of the State of Alaska relating to and limiting appropriations from the Alaska permanent fund based on an averaged percent of the fund market value and relating to permanent fund dividend payments.

HJR 102 was REPORTED out of Committee with a "do not pass" recommendation and with a zero fiscal note by the Department of Revenue and a fiscal impact note by the Office of the Lieutenant Governor.

HJR 103 Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit.

HJR 103 was reported out of Committee with a "no recommendation" and a fiscal impact note by the Office of the Lieutenant Governor.

HB 1003 An Act relating to the income of and appropriations from the Alaska permanent fund under art. IX, sec. 15(b), Constitution of the State of Alaska, and making conforming amendments; relating to permanent fund dividend payments of at least \$1,000; relating to the determination of net income of the mental health trust fund; and providing for an effective date.

HB 1003 was REPORTED out of Committee with a "do not pass" recommendation and with a zero fiscal note by the Department of Revenue.

#hjr101

HOUSE JOINT RESOLUTION NO. 101

Proposing amendments to the Constitution of the State of Alaska relating to and limiting appropriations from the Alaska permanent fund based on an averaged percent of the fund market value.

Co-Chair Williams noted that the identical legislation [HJR26] had come before the Committee during the regular session and asked if members would like to ask questions. No questions were asked.

Representative Foster MOVED to report HJR 101 out of Committee with individual recommendations and with the accompanying fiscal note.

There being NO OBJECTION, it was so ordered.

HJR 101 was reported out of Committee with a "no recommendation" and a fiscal impact note by the Lt. Governor's Office.

#hjr103

HOUSE JOINT RESOLUTION NO. 103

Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit.

Co-Chair Williams noted that the identical legislation [HJR9] had come before the Committee during the regular session and asked if members would like to ask questions. No questions were asked.

Representative Foster MOVED to report HJR 103 out of Committee with individual recommendations and with the accompanying fiscal note.

Representative Croft OBJECTED. He felt that a spending limit would be a major mistake. He spoke in support of a tax cap. "The best spending cap is not letting government get into the dividend." He observed that future growth could necessitate additional state spending and concluded that it would be inappropriate to constraint future legislatures.

Representative Stoltze spoke in support of the legislation.

A roll call vote was taken on the motion.

IN FAVOR: Chenault, Foster, Hawker, Meyer, Stoltze, Williams
OPPOSED: Croft, Fate, Joule

Co-Chair Harris and Moses were absent from the vote.

The MOTION PASSED (6-3).

HJR 103 was reported out of Committee with a "no recommendation" and a fiscal impact note by the Office of the Lieutenant Governor.

#hjr102

HOUSE JOINT RESOLUTION NO. 102

Proposing amendments to the Constitution of the State of Alaska relating to and limiting appropriations from the Alaska permanent fund based on an averaged percent of the fund market value and relating to permanent fund dividend payments.

Representative Foster MOVED to report HJR 102 out of Committee with individual recommendations and with the accompanying fiscal notes. There was objection for purpose of discussion.

CHERYL FRASCA, DIRECTOR, DIVISION OF MANAGEMENT & BUDGET, OFFICE OF THE GOVERNOR, explained the bill, which would provide a constitutional distribution of 5 Percent of the Market Value (POMV) of the Permanent Fund: 50% to dividends, 45% to education and 5% as a community dividend. There would be a ten-year sunset provision. Ms. Frasca noted, "it would be up to a legislature a decade from now to decide what it wanted to bring back to the voters."

Representative Stoltze stated that he had a problem putting a sunset provision into the Alaska Constitution. He felt that it would erode public confidence and pointed out that any Committee Chair could "obliterate" all the plans and protections [provided under the legislation] through the legislative process.

Representative Joule MOVED to ADOPT a conceptual amendment changing the distribution to: 60% to dividends, 32.5% to state functions, and 7.5% to municipalities. Co-Chair Williams OBJECTED.

Co-Chair Williams referred to the constitutional approach and noted that it would take two years to implement due to voting requirement.

In response to a question by Representative Croft, Ms. Frasca clarified that the legislation was drafted with a sunset. A future legislature would have to place on the ballot either the same proposal or a new proposal. "The idea was, is that, when we look forward over a decade, in ten years we don't know what Alaska is going to be like." Future revenues are anticipated from resource development. The Administration felt it was important to give a future legislature the latitude to determine what is the best fit for the circumstances at that time. A ratification approach would only allow the continuation of the process that was in place in 2004.

Representative Croft concluded that the entire committee process would have to [be repeated] in 2014 [under the constitutional approach].

Representative Hawker pointed out that the ballot initiative to establish the Permanent Fund stressed that the Fund would be used to establish stable state funding when oil and gas revenues were gone. He observed that the proposal would take 50% of these funds off the table for dividends.

Ms. Frasca responded that the creation of the dividend expanded the use of the Fund. The interpretation that a use of the Fund should be for dividends is supported by the statutory actions of the legislature. The legislation would

put into the Constitution what has become practice in terms of dividends and education.

Representative Hawker questioned if the Administration was comfortable in placing dividends as the top priority of state funding.

Ms. Frasca noted that the Administration is comfortable with the use of funds for dividends and education. The 5 percent payout for municipalities establishes a new program.

REPRESENTATIVE ETHAN BERKOWITZ questioned if anyone had looked at increasing the 25 percent [deposit into the Fund] from mineral leases to 50 to 100 percent.

ROBERT D. STORER, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, DEPARTMENT OF REVENUE, stated that he could provide the information, but speculated that the Fund size and income from the Fund would increase.

In response to a question by Representative Berkowitz, Ms. Frasca was not aware of any proposals by the Administration to increase the deposit amount [from mineral leases]. She questioned if the suggestion by Representative Berkowitz would be for all revenues to go into the Permanent Fund. Representative Berkowitz stated that he wanted to consider a change and asked for additional information, which Mr. Storer promised to provide.

Representative Joule reiterated his conceptual amendment for distribution of a 5 percent POMV: 60 personal dividend, 35.2 percent to state spending, and 7.5 for municipalities.

Representative Hawker stated that he would be in favor of an increased municipal dividend with a 50 percent dividend payout.

Representative Joule noted that constituents seem to favor a distribution of 60 percent to dividends. He spoke in support of the amendment.

Vice-Chair Meyer spoke in support of a 50 percent dividend and a 10 percent municipal dividend.

Representative Croft spoke in support of the amendment. He noted that a third of the payout would be upwards of \$425 million dollars [for state spending]. Communities would receive approximately \$105 million dollars, which is close to the amount paid by the municipal assistance program before reductions.

A roll call vote was taken on the motion by Representative Joule to change the distribution amounts.

IN FAVOR: Croft, Foster, Joule, Moses, Stoltze
OPPOSED: Fate, Hawker, Meyer, Chenault, Williams

Co-Chair Harris was absent from the vote.

The MOTION FAILED (5-5).

Representative Foster MOVED to report HJR 102 out of Committee with the accompanying fiscal notes. Representative Fate OBJECTED. He spoke against eroding the power of the legislature.

Vice-Chair Meyer stressed the importance of the POMV approach. He felt that it merited further debate on the House Floor.

Representative Stoltze and Representative Hawker agreed with the remarks of Vice-Chair Meyer.

Representative Joule noted that the public needs to be convinced of the importance of the POMV.

REPRESENTATIVE NICK STEPOVICH pointed out that the public is wary of the way the legislature spends its money.

A roll call vote was taken on the motion to move the bill from Committee.

IN FAVOR: Foster, Hawker, Joule, Meyer, Stoltze, Williams
OPPOSED: Fate, Chenault, Croft, Moses

Co-Chair Harris was absent from the vote.

The MOTION PASSED (6-4).

HJR 102 was REPORTED out of Committee with a "do not pass" recommendation and with a zero fiscal note by the Department of Revenue and a fiscal impact note by the Office of the Lieutenant Governor.

#hb1003

HOUSE BILL NO. 1003

An Act relating to the income of and appropriations from the Alaska permanent fund under art. IX, sec. 15(b), Constitution of the State of Alaska, and making conforming amendments; relating to permanent fund dividend payments of at least \$1,000; relating to the determination of net income of the mental health trust fund; and providing for an effective date.

CHERYL FRASCA, DIRECTOR, DIVISION OF MANAGEMENT & BUDGET, OFFICE OF THE GOVERNOR, observed that the legislation would provide for a dividend that is equal to 50% of the annual

POMV income or a \$1,000 dollar dividend, whichever is greater.

ROBERT D. STORER, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, DEPARTMENT OF REVENUE, explained that the income from the Amerada Hess settlement may not be distributed as a dividend under current law. Income from the settlement can only go into the principal of the Fund. These funds are a component within the Fund, which has continued to grow. The legislation would change this status and allow the funds to be considered in the calculation of dividends. In response to a question by Representative Croft, Mr. Storer felt that the change could be made within the limits of the settlement. He did not have a legal opinion to substantiate this opinion [Mr. Storer later notes that the legislation would not include this change.]

Representative Hawker corrected the previous statements by Mr. Storer and pointed out that language in the original version (HB 298) made the income available. He observed that HB 1003 would hold the status quo and the income would not be available for distribution.

Mr. Storer acknowledged that the distinction would remain the same as under current statute.

Representative Joule MOVED to ADOPT conceptual Amendment #1 for the distribution: 7.5 percent for municipalities, 32.5 percent to public education and 60 percent to dividends.

Co-Chair Williams OBJECTED.

Representative Hawker suggested that the amendment would place dividends at a higher priority to education. Representative Joule disagreed and pointed out that there is a formula for education, regardless of the funding source. The amendment is a switch in the fund source.

Representative Hawker asked if Representative Joule would support a reduction of the dividend payout to 50%. Representative Joule did not support the change.

A roll call vote was taken on the motion.

IN FAVOR: Foster, Joule, Moses, Stoltze, Croft
OPPOSED: Hawker, Meyer, Chenault, Fate, Williams

Co-Chair Harris was absent from the vote.

The MOTION FAILED (5-5).

Representative Chenault asked what would happen if the Permanent Fund did not have a market gain in a period of time.

Ms. Frasca pointed to page 3, line 26: if funds were insufficient to meet the \$1,000 [dividend] minimum, the other percentages would be reduced accordingly with the anticipation that the legislature would back fill to fully fund the 45 and 5 percent payouts [to education and municipalities.]

Mr. Storer explained that the POMV approach allows a 5 percent payout with any distribution. Under the proposal a \$1,000 dividend would be given priority; as long as 5 percent of the average of the Fund equal to \$1,000 [times the number of dividend recipients] is available, the dividend would be paid. The Fund size would have to average around \$14 billion to [pay a \$1,000 dividend]. He observed that during the past three year's bear market the Fund went from \$28 billion to \$21 billion, which still allowed for inflation proofing and full funding of the dividend. Statistically there is a small possibility [that the Fund would drop below the level needed to fund a \$1,000 dividend]. There would have to be an extremely severe bear market in the stock market.

Ms. Frasca pointed out that the legislation would provide a statutory change. The legislature would have the latitude to amend the statute.

In response to a question by Vice-Chair Meyer, Ms. Frasca reiterated that the \$1,000 minimum provision was added by the Governor and was not in the version passed by the House [HB 298].

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Representative Foster MOVED to report HB 1003 out of Committee with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

HB 1003 was REPORTED out of Committee with a "do not pass" recommendation and with a zero fiscal note by the Department of Revenue.

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ADJOURNMENT

The meeting was adjourned at 4:32 PM