

**ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE**

March 4, 2004

8:01 a.m.

MEMBERS PRESENT

Representative Bruce Weyhrauch, Chair
Representative Jim Holm, Vice Chair
Representative John Coghill
Representative Bob Lynn
Representative Paul Seaton
Representative Ethan Berkowitz
Representative Max Gruenberg

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE JOINT RESOLUTION NO. 31

Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund and to payments to certain state residents from the Alaska permanent fund; and providing for an effective date for the amendments.

- HEARD AND HELD

HOUSE BILL NO. 422

"An Act repealing the special subaccount established in the constitutional budget reserve fund; relating to the powers of the Department of Revenue for the investment of amounts in the constitutional budget reserve fund; and providing for an effective date."

- HEARD AND HELD

DISCUSSION WITH DEPARTMENT OF TRANSPORTATION STAFF

[See 9:17 a.m. minutes for this date.]

HOUSE BILL NO. 439

"An Act relating to the authority to take oaths, affirmations, and acknowledgments in the state; relating to notaries public; relating to fees for issuing certificates with the seal of the state affixed; and providing for an effective date."

- BILL HEARING POSTPONED TO 3/8/04

HOUSE BILL NO. 516

"An Act relating to a charge for a bad check."

- BILL HEARING POSTPONED TO 3/5/04

PREVIOUS COMMITTEE ACTION

BILL: HJR 31

SHORT TITLE: CONST AM: PERMANENT FUND

SPONSOR(S): REPRESENTATIVE(S) HOLM

01/02/04	(H)	PREFILE RELEASED 1/2/04
01/12/04	(H)	READ THE FIRST TIME - REFERRALS
01/12/04	(H)	W&M, STA, JUD, FIN
01/23/04	(H)	W&M AT 8:00 AM HOUSE FINANCE 519
01/23/04	(H)	Heard & Held
01/23/04	(H)	MINUTE(W&M)
02/04/04	(H)	W&M AT 8:00 AM HOUSE FINANCE 519
02/04/04	(H)	Heard & Held
02/04/04	(H)	MINUTE(W&M)
02/18/04	(H)	W&M AT 7:00 AM HOUSE FINANCE 519
02/18/04	(H)	Moved CSHJR 31(W&M) Out of Committee
02/18/04	(H)	MINUTE(W&M)
02/19/04	(H)	W&M RPT CS(W&M) NT 6NR
02/19/04	(H)	NR: WEYHRAUCH, SAMUELS, WILSON, OGG,
02/19/04	(H)	MOSES, HAWKER
03/04/04	(H)	STA AT 8:00 AM CAPITOL 102

BILL: HB 422

SHORT TITLE: BUDGET RESERVE FUND INVESTMENT

SPONSOR(S): FINANCE

02/02/04	(H)	READ THE FIRST TIME - REFERRALS
02/02/04	(H)	STA, FIN
02/10/04	(H)	STA AT 8:00 AM CAPITOL 102
02/10/04	(H)	Scheduled But Not Heard
02/26/04	(H)	STA AT 8:00 AM CAPITOL 102
02/26/04	(H)	Heard & Held
02/26/04	(H)	MINUTE(STA)
03/02/04	(H)	STA AT 8:00 AM CAPITOL 102
03/02/04	(H)	Heard & Held
03/02/04	(H)	MINUTE(STA)
03/04/04	(H)	STA AT 8:00 AM CAPITOL 102

WITNESS REGISTER

DESMON BUTTS

Wasilla, Alaska

POSITION STATEMENT: Testified during the hearing on HJR 31.

ACTION NARRATIVE

TAPE 04-27, SIDE A

Number 0001

CHAIR BRUCE WEYHRAUCH called the House State Affairs Standing Committee meeting to order at 8:01 a.m. Representatives Holm, Seaton, Coghill, Lynn, and Weyhrauch were present at the call to order. Representatives Berkowitz and Gruenberg arrived as the meeting was in progress.

HJR 31-CONST AM: PERMANENT FUND

Number 0031

CHAIR WEYHRAUCH announced that the first order of business was HOUSE JOINT RESOLUTION NO. 31, Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund and to payments to certain state residents from the Alaska permanent fund; and providing for an effective date for the amendments.

Number 0075

REPRESENTATIVE HOLM, sponsor, stated that HJR 31 is a constitutional amendment, which would be voted on by the people. The resolution would require a two-thirds majority in the House and Senate in order to get to the ballot. The proposed legislation, he said, would restructure the way the permanent fund currently works. There would be a payout of \$20,000, only to those people who qualified [for the permanent fund dividend (PFD)] in 2004.

REPRESENTATIVE HOLM directed attention to a handout in the committee packet entitled, "HJR 31's Restructuring Of The Permanent Fund," which shows that, after the \$20,000 payments are made, the corpus of the fund would change from it's current approximate \$28 billion to \$16 billion. That \$16 billion would continue to earn money and, "with the possibility of 8-percent earnings on average," it would produce approximately \$1.28 billion per year. Of that amount, \$480 million is proposed to

go back into the fund to keep it inflation-proofed, while \$800 million would then be available for government services and to be put into the capital budget reserve (CBR). Representative Holm indicated the "far right" of the handout and said that "the numbers are just a possibility." He clarified that the numbers don't have to be done this way and he said discussions could take place regarding how much money the government needs and how much money needs to be put in the CBR. He stated his idea is to do the same thing that is being done with the CBR, which is to take the peaks of economic times and to "put them into the valleys of our economic times." Thus, the excess money can be used to take up the slack when the oil prices are lower. He suggested that "those things will eventually happen."

Number 0354

REPRESENTATIVE HOLM stated that there is a difficult scenario in Alaska; there exists "twenty eight thousand million dollars-worth of assets" that were derived from the resources of Alaska. Those monies were put in the New York stock exchange, thus they don't "sit in Alaska" or produce jobs in Alaska. He said it could be argued that the earnings from the stock exchange and resource development in other parts of the world is beneficial to the state of Alaska to the amount of approximately \$600 million for PFD checks. Notwithstanding that, he stated that those checks are less than a person could earn with \$20,000 invested in a mutual fund today. He explained that when he looked at the numbers, he began thinking about whether it was possible to put enough money "in" to make a life-altering change for people, while still preserving the size of the fund so that it could produce earnings large enough to take care of the budget deficits that are created today with the current spending scenario.

REPRESENTATIVE HOLM noted that there has been talk of shortfalls, with \$200-\$600 million taken out of the [CBR]. He admitted that he is not a manager of a huge corporate fund. Notwithstanding that, he suggested that the legislature should have the ability to keep the pressure on "how we spend money," while also having enough money in the accounts to pay the bills. He indicated that because of the current structure and political reality, there is a fear of taking any money "out of there" and affecting people's PFD checks, and "we work under a scenario that wastes an awful lot of time worrying about how in the dickens we're going to pay our bills." He revealed that he has been receiving hundreds of e-mails from diverse people who feel that [the legislature] is not giving education or welfare its

due and is not adequately providing for services as required by the constitution.

REPRESENTATIVE HOLM stated that [HJR 31] is not the only possibility, and it is a possibility that has been thought of before. He said he believes [this proposed resolution] would work and would "change the way the State of Alaska is structured in its functioning today." He said it could be argued how to carry the plan out, for example, whether the people would get \$4,000 or \$5,000 checks. He continued as follows:

I suggest there's one thing we could possibly do, and that is to have a venture capital fund that's owned by the people of the state of Alaska - not the state itself, but the people of Alaska - that could be used no differently than what we're doing with the permanent fund today, as a pot of cash that then could prevent the monies leaving the state and be actually be invested into projects within the state of Alaska to have some perpetuity of jobs and revenues within the state.

REPRESENTATIVE HOLM expressed that one thing that does not exist today is the ability of the people of the state to "have a connect between what it costs for their government, and what they pay for it." He concluded that the people of Alaska don't understand that all of the resource money that's spent for government is a tax that has been taxed away from all who own the resources of Alaska. He said:

When we became a state, the resources were put in a collective. The earnings of those resources are what we're receiving today, but we're depleting the resource - and it's a nonrenewable resource. So, I would suggest ... that we look at some methodology ... that has the potential for changing the way we structure the government of the State of Alaska. We must balance our budget. We cannot go down this road much farther - we know we can't. We are working under a situation where the CBR requires a three-quarter vote, and because ... it requires a three-quarter vote, our budgets increase immeasurably at the end of the session to get out of the session and make sure that we get a vote from the minority, because we have to have a minority vote in order to leave in the appropriate time.

Number 0733

REPRESENTATIVE HOLM reiterated that he thinks [HJR 31] has possibilities to reach solutions and he only offers it because he thinks it's an absolute necessity that "we as Alaskans" come up with some system that works. He said he agrees with others who say that it is the job of [the legislature] to come up with a solution. He said, "Popular or not, I believe that if it gets on the ballot it would pass." He listed other possibilities, such as a dividend program and the percent of market value (POMV). He suggested that the POMV doesn't take into consideration the population of the state. Since 1982, when Alaska "instituted the dividend program," the population has increased by 200,000 people. Representative Holm said he has never seen any indication that the earnings of the fund will grow as fast as the population. He said he understands that the POMV approach is an excellent way to manage funds. He noted that most of the discussion by the fund managers have indicated that that is "the best way of going." Representative Holm stated:

I suggest that that would be the methodology for the corpus of fund that would be left in the permanent fund, starting and beginning at the year 2004, and carrying forward for the next five years, and then a rolling five-year average from then on. And that ... is primarily because there wouldn't be \$28 billion to make that beginning of the rolling average.

Number 0894

CHAIR WEYHRAUCH asked if any analysis had been done regarding the figures of \$20,000 payouts totaling \$12 billion and a remaining corpus of \$16 billion. He asked, "Why those figures?"

REPRESENTATIVE HOLM indicated that one consideration had been to ask what a good number would be that people would vote for, that would allow the legislature to do what it should be doing. He said he had considered \$10,000, but decided that it wouldn't be enough. He noted that he has received e-mails with suggestions for different amounts and he said he doesn't know that there is a magic number. Whatever the amount is, he explained, it should be large enough, but not so large that there wouldn't be enough in the remaining permanent fund to provide enough earnings at a predicted rate of 8 percent for a buffer to use to balance the state budget. He continued:

If we assumed ... that we would have \$400 million available, we could balance our budget, given the current scenario we are in today. And if we wanted more money, we would then have to go through the same scenario with the CBR to add more money to education or to any other programs that we chose to fund.

REPRESENTATIVE HOLM reiterated that the numbers work, but he is not tied to them.

CHAIR WEYHRAUCH stated that [HJR 31] has been described by some as the "take the money and run resolution." He asked Representative Holm to address that.

REPRESENTATIVE HOLM replied that a number of people have said that "it's greed" and it's inappropriate for people to consider not having a dividend program. He remarked that he lived [in Alaska] for 38 years before there ever was a dividend program, so it's not something that's a part of his history.

REPRESENTATIVE HOLM mentioned taking [the money] and putting it into people's homes. He said he looked at the larger view and the main view is that government must function in the appropriate manner, which means that the people that are paying the money for the government must have a "connect" to that money they are paying for that government. He continued as follows:

Through these discussions I hope people will understand that we are taxing \$1.7 billion every year from the people of Alaska and using it for their government. It just means we're not sending it to New York to the stock exchange; we're pulling it into the State of Alaska. The royalty payments are ... not the monies of the oil companies - they're our monies.

CHAIR WEYHRAUCH responded that cashing out the permanent fund and making a portion of it available to government is still not putting the responsibility on the individual. He stated that to have a connection between government [and the people], a tax system is almost needed, because "you have to invest in government." He asked if [HJR 31] would lead to a setup for a taxation system in the state that doesn't already exist.

REPRESENTATIVE HOLM answered that at some future date it would. He suggested that when the revenues from the natural resources decline and the state's expenses increase, eventually a point

will come where "the two are not equal," which will require some form of taxation to pick up the balance.

Number 1177

REPRESENTATIVE HOLM stated that when people have an opportunity to make life-altering changes, they can choose "to waste their investment or they can choose to invest their investment." He emphasized the importance of teaching people that it's more important to invest in Alaska, into new products and jobs. He said those jobs are not government jobs. He said, "We produce a tremendous number of educated people here, but we have very few long-term jobs, and so we send a lot of our people 'outside,' because we don't educate them in fields that they can stay here in, other than in government or in something related to that." He mentioned retail sales and he said that "many of the sales jobs are actually not very high-paying ..., quality jobs that you'd want to be ... having people pay for a college education to think that that's their long-term goal."

CHAIR WEYHRAUCH stated that the permanent fund was set up to be permanent and the money should be there for future generations. He indicated that [HJR 31] would pay out this generation.

Number 1262

REPRESENTATIVE HOLM offered an example of a family of four that would get a payout of \$80,000 [through the proposed HJR 31]. He suggested that they might buy a home with that money, and that is an asset that transfers to their family. He noted that the state's assets are declining and future generations will not have the nonrenewable resources available to use. He remarked that once land is bought, for example, people a thousand years from now can't buy that piece of land, unless they "buy it from your heirs." He questioned "how far down that road we need to go." He said he thinks it's far more important that people [in the state now] have decent employment, have an ability to take care of themselves, and have a proper use and function of their own finances. He concluded, "I think it's a far better thing to teach people to fish than give them fish, and so, just handing them a bunch of money without giving them the appropriate analysis of what they should do with it, I think is a very valid point, and we need to discuss that."

Number 1336

REPRESENTATIVE SEATON, regarding the idea of investments, jobs, and people, noted that many things are done in the state by investment credit, credit to oil companies, and credit to small businesses, for example. He asked Representative Holm if his proposal of giving everybody \$20,000 will create business and good paying jobs "versus using that money over time to influence the economy."

REPRESENTATIVE HOLM prefaced his answer by stating that he is a businessman, so he worries about how much it costs to repay debt. He mentioned the "rule of 72," which is [a formula for how] money doubles every 72 months. He continued as follows:

If you take \$20,000 today ... it's not inconceivable that in 20 years of \$1,000 payments for a dividend, as we do today, you would still only have \$20,000 in total funds. But at 20 years out, the \$1,000 that you get in 20 years is probably only worth \$400 or \$500 in today's dollars, or some number. It's a discounted number; it's not \$1,000, it's something less than that in 2004 dollars. If you take \$20,000 in 2004 dollars, even if you pay the taxes on it and you only end up with \$15,000, the time value of money, as I understand it, means it's probably worth between \$40,000 and \$60,000, depending upon what you do with it.

The other thing [is], if you take that money and you just put it in a mutual fund, and you clip coupons on it, you get your \$1,000, ... but ... the individual would own the asset.

REPRESENTATIVE SEATON said Representative Holm is saying that Alaska is exporting jobs because it doesn't have good jobs, the brightest "kids" are leaving the state, and a \$20,000 one-time payout will create good jobs across the state. He stated that he doesn't see the connection and he doesn't think such a payout would have the same kind of effect as tax credits for investments in certain businesses, for example, or "the other kind of state programs that go forward." He said he wanted to make certain that that's Representative Holm's position.

REPRESENTATIVE HOLM responded that he is not saying that this is all a jobs program. He offered a couple examples: First, he said that the \$20,000 could be reducing mortgage, which could result in a huge economic boon for the family. He said it is inherent upon [the legislators] as leaders to offer solutions to people so that they can improve their lot. Second, if people

take that money and pay off credit cards, on which they are presently paying huge percentages of interest, "you also can exact some tremendous positives." He added, "Now, whether people do this or not, I don't know."

REPRESENTATIVE HOLM said there's a great disconnect between fishermen and the amount they pay to Alaska for the government. He reminded the committee that many of the fishermen who come up to the state don't pay any taxes to the state. He noted that it is reputed to be that the people who work in Prudhoe Bay don't pay any money to the state for its government. He mentioned all the different things that the state pays for, such as [water] ports and airports, and he said, "But we don't get any compensation from those who work here." To give tax credits to companies to come to Alaska doesn't necessarily translate into paying money for the state government, he said, while having extra money in Alaska for creating jobs may be "the little shot in the arm that will allow somebody to start a small business." He revealed that he started his own business with \$30,000, but he borrowed from someone.

REPRESENTATIVE HOLM reiterated that he does not see [HJR 31] as the only solution. However, he stated that his sense is that "we do not function as a decent government here." He said [the legislature] argues a lot over how to balance the budget, knowing it hasn't balanced its budget in 10 years, except by going to the savings account to do so. He said, "I don't know what the answer is; this is all about trying to figure out some methodology where this government can function better."

REPRESENTATIVE SEATON expressed appreciation for Representative Holm's words, but questioned how the \$20,000 individual payout ties to the argument that [HJR 31] is for investment in jobs and retaining people in Alaska.

REPRESENTATIVE HOLM said he isn't maintaining that [result] at all, but is only maintaining that if someone wants to get out of "the doldrums or wherever they are," then [\$20,000] might be a significant amount of money. He said, "I don't know about you, sir, but ... \$15,000 - even if that's what the number is - or \$10,000 cash in your pocket is more money than many, many folks see in their lifetime. And to assume that people would just waste it, I don't think [is] appropriate." He stated that he thinks [that kind of payout] has the potential for life-altering change.

Number 1678

REPRESENTATIVE LYNN asked what the effect on eligibility of recipients of public assistance would be if they were to receive "all this money."

REPRESENTATIVE HOLM mentioned there are statements made in the committee packets regarding how the services would be changed in different departments. He said it's fairly complex, and he said he thinks Representative Lynn's concerns are well placed. He proffered that it may only be a one-year problem for many, because they may go right back on whatever type of assistance that they currently receive. He said it may be that certain folks shouldn't be impacted by this, and "we will do things like hold harmless." He noted that [HJR 31] takes out the hold harmless agreement for one specific reason: He thinks that if people are given the opportunity, they will get away from being on public assistance. He noted, for example, that a single mother with two children would receive \$60,000, and he suggested that many single mothers with two children have never had that much money. Representative Holm stated that he is trying to exact a social change, as well as a government change, and he said he doesn't think the two are mutually exclusive. He concluded, "You know, we as a government are trying to provide for those who cannot provide for themselves. And I think we should do that. The operative word here is 'cannot,' not 'will not.' And I suppose, ... philosophically, that's what I'm trying to accomplish."

REPRESENTATIVE LYNN revealed that he calls four to five constituents every day to ask if they have any questions, complaints, or concerns. The one common denominator in the answers is in regard to the fiscal situation in the state that needs to be solved. He indicated that the comments of people regarding the ideas proposed to solve the fiscal problem is to "pick something and do it." Regarding Representative Holm's HJR 31, he said he thinks many constituents think it's a good idea.

REPRESENTATIVE LYNN said he thinks that [HJR 31] "has a lot to recommend it." He pointed out that, if a dividend payment of approximately \$1,000 a year can be predicted for the next 20 years, then all those who are over 60 years old would probably be better off with the \$20,000 in their pockets now than betting that they will live another 20 years. He indicated that he would benefit in that way and thus declared a conflict of interest.

REPRESENTATIVE LYNN said some say that people would squander that money. He said that's probably true, but said he has a quaint idea that "it's none of my business what you all do with your money." Even if some folks "blew" that money, he observed, there would still be a tremendous economic impact upon the state.

Number 1930

REPRESENTATIVE LYNN observed that the permanent fund has become "something of a sacred cow," and most [legislators] have promised in one manner or another to protect the fund. He stated that he is in favor of [protecting] the fund because it belongs to the people. He noted that the fund has been described as something to have for a rainy day, and he suggested that "some variety of my colleague's suggestion here would turn a rainy day into a sunny day." He said there are a number of [ideas regarding the fund], and he suggested it may be wise to put more than one of them on the ballot to "help the people decide." He stated that he would support [HJR 31] moving out of committee.

Number 2033

REPRESENTATIVE BERKOWITZ mentioned "the Mackie plan" [a proposed plan by former Senator Jerry Mackie]. In response to a comment by Chair Weyhrauch, he specified that the Mackie plan had been to cash out a portion of the fund. Regarding [HJR 31], he noted that there have been a lot of discussions that the proposed legislation would be good for the economy. Conversely, he stated, "I just wonder what happens to the Python after it swallows a \$12 billion pig. What happens for its next meal?" He questioned what would happen when people leave the state, which is something he predicted people would do. He mentioned possible effects to small businesses and the cost of housing.

REPRESENTATIVE BERKOWITZ said he has not heard any discussion regarding the mechanics of "this liquidation." He stated that he would like to know what would happen to the remainder of the fund. For example, he asked if [HJR 31] would impact the quality of the permanent fund's investments. He noted that 8 percent of \$20,000 is approximately \$1,600. He suggested another option might be a "POMV 70-30 split," which would maintain the integrity of the fund. He continued as follows:

And I'm not endorsing that, I'm just pointing it out that you get to the same place without sacrificing ...

the very important notion of intergenerational store of wealth that the permanent fund enshrines. So, I'd like to hear a little bit more about the thinking that went into this.

Number 2136

REPRESENTATIVE GRUENBERG questioned whether the permanent fund belongs just to Alaskans today or whether it belongs to Alaskans in the future. He mentioned Representative Lynn's previous remark that what other people do with the money isn't his business. He continued as follows:

If we really subscribe to the principal that Representative Lynn ... stated, then we really are affecting people's money who are not voting on the bill - people who are not old enough to vote [or] ... are not even born yet - and so, we really are making a decision about somebody else's money if we take the money and distribute it now.

Now you say, "Well, we do that every time we take oil out of the ground, because that's an asset that may not just belong to us, but may belong to future generations." And I would say that that's true, but we don't take all the money out immediately - all the assets out - and distribute it. What we've done is taken the state's share and kept it in the permanent fund, so we really have kept it for future generations. And we've followed the principal that I'm espousing, which isn't just [that] it belongs to the current generation.

REPRESENTATIVE GRUENBERG mentioned the land that was given away in Oklahoma [the Oklahoma Land Rush, April 22, 1889], and said someone could point to that as an example of giving away [a state resource] to the people. He indicated that his logical response would be that to give a small amount of distribution under the "let's help people fish so that they can support themselves" policy is good for the state to do. He spoke of helping people get off welfare and support themselves, whether they choose to do so by living on the land or recreating on the land. He noted that fishing is a renewable resource.

Number 2299

REPRESENTATIVE GRUENBERG said a second question is, "Who decides?" The same analysis applies, he said. Because [HJR 31] is a constitutional amendment, the legislature doesn't decide, but the people do. He clarified that it is the current generation who would decide [for future generations]. He said he thinks that it's safe to say that not many people would make the analysis that "I'm discussing at the moment." He stated that the legislators are really the ultimate trustees of the permanent fund, because the ideas regarding that fund are proposed by the legislature.

Number 2329

REPRESENTATIVE HOLM responded that he agrees that the legislature is trustee for the future. He stated that because of that, the legislature must solve the fiscal dilemma that [the state] is in today. That, he explained, is the only reason he proposed [HJR 31] as a method to "get there from here." He reiterated that it isn't the only possibility. He noted that the POMV [idea] could work, but said he's concerned that there isn't "the population discussion." He continued as follows:

But frankly, 63 percent of the people in January didn't even know what POMV meant ... in a poll that was taken. My question is, if folks don't understand it, they won't vote for it. If they won't vote for it, we're still in the same dilemma were are in today.

Number 2376

CHAIR WEYHRAUCH stated that this obviously is a "huge philosophic issue." He outlined that the committee's process is to hear what the people have to say, understand what the implications of [HJR 31] are in terms of state policy, and vote on the issue.

TAPE 04-27, SIDE B

Number 2376

REPRESENTATIVE SEATON said he appreciates Representative Holm's bringing [HJR 31] forward, because he thinks the intent of the resolution is to find some way to enable the state to take its largest income-generating asset and use it to the benefit of the state through funding state services and balancing the fiscal gap. He noted that most of the conversation is centered on what people will do with the money and he said he doesn't really think that's the crux of the problem. He said he thinks the

question to consider is whether the purpose of Alaska's having subsurface rights and so much land is to fund and support a state government or to make Alaskans individually wealthy.

Number 2283

REPRESENTATIVE COGHILL responded that he agrees with much of what Representative Seaton just said and he appreciates Representative Holm for bringing forth [HJR 31]. He confirmed that it's true that the subsurface rights were given to the state so it could afford to maintain its government. He said, "We were fortunate enough to find the oil in Prudhoe Bay in 1968, and we have had quite an interesting ride ever since then." He told the committee to be aware that "during that time, three quarters of the royalties, revenues, and leases have already gone into the general fund state coffers." He said it could be argued that three quarters of those revenues have been consumed by the current generation; however, he noted that there is an infrastructure, so there are benefits that are going to accrue.

REPRESENTATIVE COGHILL indicated that when discussion first began about the permanent fund dividend, one idea was to let people share generally in the wealth, while the other was to protect the fund itself, so that "people would be engaged." He said he thinks that at this point, if the dividend goes away, the protection goes away. Every year [in the legislature] there is discussion about protecting the dividend. He said that that's good, but "it also has its backlash." He stated the fact that "we" have actually come to the point where the critical mass in the fund has allowed a good debate on turning a nonrenewable resource into a renewable one. The dividend now is a high focus.

REPRESENTATIVE COGHILL said he thinks this is probably one of the critical years when "we're" going to have to question whether it's time to use some of the earnings to support government services, because up until now it hasn't [been time to do so]. He said, "I don't know that by taking the dividend off the table that you really solve that argument. I think we'll still have a debate, and I think there's going to be, once again, a larger mistrust, because it will be viewed as playing to self-interest on one hand, and allowing the legislature to ... manage the rest of it outside of their interest." He said he thinks that speaks to Representative Gruenberg's previous comment regarding whether this is a trust that is being managed. He said that in many ways it is. He said this is a huge policy

question and he appreciates "the boldness." He revealed that he isn't necessarily going to support "this effort." He explained that [supporting HJR 31 would mean that] not only is he of the generation that has benefited from the three quarters of the money that went into government services, but he would also be the generation that would get a direct payout of the earnings of that resource.

Number 2100

REPRESENTATIVE COGHILL stated the following:

If I'd have been the architect, I probably would not have put a dividend in to begin with. I would probably [have] made the state fight for a dividend. And now we have ... the opposite effect - probably rightfully so: the state now has to justify its need to use some of the earnings of permanent fund. That's probably a good debate. ...

If I was the architect I would say, "Give an individual dividend, not for the whole earnings of the permanent fund," ... because then you have everybody engaged in this renewable resource, just like you would in the negotiations for the oil contracts. Let the community share in it like Representative Moses said; give them a dividend also that is discretionary. ... We did that; when we had a lot of oil we had revenue sharing. And when the revenue was there, we shared. If it's not there we can't share And then, let the government get a dividend, if you will, or a portion of that, because that was, I think, the whole intent of the resource base, which we have purported that this now is a renewable resource built out of a nonrenewable resource. So, at the end of the day, we'll probably get there, and we're in the middle of that discussion. But I think right now, for this particular bill, you will disengage the public from the protection of this fund, and at that point I can say it's worked very well - and sometimes too well, but I think, appropriately, has worked well. And for that there is an engagement.

The day that we get a tax in there's a different kind of engagement, and I'll tell you why. I pay an income tax every year to the federal government, but I am so disengaged from the federal government, it's

unbelievable. So, the tax is a burden, but it's not really an engagement tool. This actually has worked much better than an engagement tool, I think.

Now sometimes the discussion wobbles into the extremes, but I don't think that's entirely bad. ... I'm conflicted too, by the way. Not only would I stand - my wife and I - to have enough to set some things in order in my house that it would be very nice -- but that's exactly what the appeal is here to that kind of interest, not necessarily to a principal. I think that I would try to ratchet it up to a more noble principal. However, I'm not a big fan of people getting something for nothing either, so I get conflicted in the discussion. The dividend has been a benefit to Alaskans, generally, but it has been somehow disconnected from a responsibility. And I think as we go down the road, we'll need to discuss that.

Right now though they have been carrying a pretty good responsibility, in my view, holding the government accountable, saying, "You don't use any of those earnings 'til you get some of your house in order." And it has been frustrating, but very effective, you know. And I appreciate that tool, because I'm one of those guys that would ride rates on the growth of government. And this is one of those tools that I've actually used to say, "Before you do anything there, I want some changes." And I've appreciated that tool, quite frankly. And it does get people engaged. As for me, I struggle with changing that trust that has now grown to a huge amount in Alaska. And a payout at this point would, I think, disconnect it. And so [Representative] Holm, I really do appreciate how you're trying to get to the fiscal needs, but we can actually get there without having to take this off the table, I think.

Number 1939

DESMON BUTTS testified that he spent a couple years in the financial markets doing self-directed investing and training. He stated that he is in favor of having the cash distribution [proposed in HJR 31], "under a few circumstances." He told the committee that people have expressed being in favor of [the payout] if it were \$20,000 after taxation. They also would

prefer that the money be distributed the first of the year, so that they would have a year and four months to invest it, especially if they have to pay taxes on it. He offered an example.

MR. BUTTS said that if the rule of 72 is applied, with a 5-percent return, the investment would double in 14.4 years, and the rate of return on \$20,000 would be approximately \$1,388 per year. He said, "If you want to have a dividend and you were to invest that \$20,000, that would give you a very decent dividend indefinitely, and therefore you protect yourself and your family in the long term." He explained that there's no guarantee that the permanent fund may even exist in 20 years, or that the payout will be consistently \$1,000 per year. He said it concerns him that after inflation, the amount that future generations may receive may be only \$200 per person, for example. He suggested that those who may not be around much longer can will the money to their successors.

Number 1822

MR. BUTTS noted a problem is the abuse of the permanent fund by those who don't live [in Alaska], but fill out the [application]. He said, "I've had a few incidences over the years I've been here [of] people telling me that they have had that happen in their family - three or four families reporting at the same address and abusing that fund. And that would help take care of the abuse problem of the fund, as well." Mr. Butts said he believes that if people were educated regarding the long-term effects of having the cash upfront, the stimulation of the economy, and their ability to spend [the money] appropriately, [the proposed legislation] would probably be more widely accepted.

MR. BUTTS, in response to a question from Chair Weyhrauch, said he moved to Alaska four years ago and owns a transportation service and limousine company in Wasilla.

Number 1749

CHAIR WEYHRAUCH said he would like to hear what it would mean to the state to have this payout. He acknowledged that some people may want to vote on the legislation; however, he said he would like a little bit more analysis regarding the implications of [HJR 31].

Number 1690

REPRESENTATIVE HOLM stated that his intentions are to solve the fiscal problem in Alaska, which he indicated has not been solved because of political differences. He said, "Because we're in such a dilemma, it may require this kind of a drastic change in how we do business."

CHAIR WEYHRAUCH noted that since the permanent fund is a trust, it may be argued that it should be cashed out. However, he noted that, philosophically, the permanent fund was set up with a lofty goal of having a fund to "invest on" for generations. He opined that it's an unfortunate state of political affairs that there are overcrowded classrooms that can't be financed, for example.

REPRESENTATIVE HOLM directed the committee's attention to a page entitled, "Vote for the Alaska Permanent Fund," [included in the committee packet, stapled in back of pages from the Division of Legal and Research Services]. He said it is an excerpt from the 1976 official election pamphlet and encouraged the committee to read it. He remarked that [the permanent fund] was a lofty goal. He said, "It certainly was something that we predicted ... could happen, but I think at that time nobody had any concept of how large it could be and where we would be today. And given that, we can look back, but history hopefully only keeps us from making the same mistakes again."

CHAIR WEYHRAUCH announced that [HJR 31 was heard and held].

HB 422-BUDGET RESERVE FUND INVESTMENT

Number 1543

CHAIR WEYHRAUCH announced that the last order of business was HOUSE BILL NO. 422, "An Act repealing the special subaccount established in the constitutional budget reserve fund; relating to the powers of the Department of Revenue for the investment of amounts in the constitutional budget reserve fund; and providing for an effective date." [HB 422 had been amended on 3/2/04; Amendment 3 was pending.]

Number 1511

CHAIR WEYHRAUCH noted that Section 1 had been struck from the bill.

REPRESENTATIVE SEATON asked if the bill had also been amended so that it would take effect immediately.

CHAIR WEYHRAUCH confirmed that is true. He said, "I'm not sure that it made a lot of difference, but ... I think we did add that."

Number 1474

REPRESENTATIVE GRUENBERG moved to amend Amendment 3, to "retain the first phrase." [See the 3/2/04 minutes.]

Number 1443

CHAIR WEYHRAUCH announced he would like to hold further discussion on HB 422 until the next day's hearing. He indicated that work would be done on the bill before then.

REPRESENTATIVE GRUENBERG requested two versions of [Amendment 3] and said, "I don't know if you agree that we should have the special account, but I would like at least one version to retain that, so people can see what it looks like."

CHAIR WEYHRAUCH concurred.

[HB 422 was heard and held.]

[The committee took an at-ease to set up for the discussion with the Department of Transportation & Public Facilities staff. See 9:17 minutes for this date.]