

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

February 4, 2004  
8:00 a.m.

**MEMBERS PRESENT**

Representative Mike Hawker, Chair  
Representative Bruce Weyhrauch, Vice Chair  
Representative Dan Ogg  
Representative Norman Rokeberg  
Representative Ralph Samuels  
Representative Peggy Wilson  
Representative Max Gruenberg  
Representative Carl Moses

**MEMBERS ABSENT**

Representative Vic Kohring

**OTHER LEGISLATORS PRESENT**

Representative Paul Seaton

**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

**PREVIOUS COMMITTEE ACTION**

BILL: HJR 31

SHORT TITLE: CONST AM: PERMANENT FUND

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

**WITNESS REGISTER**

REPRESENTATIVE JIM HOLM  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: As sponsor, explained the committee substitute (CS) for HJR 31 and answered questions.

**ACTION NARRATIVE**

**TAPE 04-5, SIDE A**

Number 0001

**CHAIR MIKE HAWKER** called the House Special Committee on Ways and Means meeting to order at 8:00 a.m. Representatives Hawker, Samuels, Weyhrauch, Wilson, Gruenberg, Moses, and Ogg were present at the call to order. Representative Rokeberg arrived as the meeting was in progress. Representative Seaton was also present.

HJR 31-CONST AM: PERMANENT FUND

Number 0139

CHAIR HAWKER announced that the only order of business would be 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. He mentioned that the proposed committee substitute, Version U, would be presented by the sponsor, Representative Holm.

Number 0202

REPRESENTATIVE WEYHRAUCH moved to adopt proposed committee substitute (CS) for HJR 31, Version 23-LS1282\U, for discussion purposes. There being no objection, Version U was before the committee.

CHAIR HAWKER welcomed Representative Holm and said there would be neither public testimony nor amendment proposals today.

Number 0310

REPRESENTATIVE JIM HOLM, Alaska State Legislature, sponsor of the bill, presented the changes made to HJR 31. He said in Version U, \$20,000 is the absolute number [of the payout], which should simplify the bill.

CHAIR HAWKER asked if the \$20,000 was just an estimate in the prior version of the bill, but now is a sum certain.

REPRESENTATIVE HOLM said that it is. He mentioned a provision in the bill that attaches a percent of market value (POMV) approach to the balance of the permanent fund when the payment has been made. He said he thinks the POMV is the appropriate approach to balance out the fund forever.

REPRESENTATIVE HOLM said another addition to the bill was to incorporate AS 43.23.075 and AS 43.23.085, which are the hold harmless agreements in state law. He said if a person receives [the \$20,000 payment], and is taken off of a subsistence or welfare program, the state is not liable.

CHAIR HAWKER announced the arrival of Representative Rokeberg, and he explained, again, the purpose of today's hearing.

Number 0609

REPRESENTATIVE WILSON referred to Section 15, subsection (a)[of the constitution], where it mentions that 25 percent [of the earnings] are placed in the fund, and she asked if this [process] is happening now.

REPRESENTATIVE HOLM said that it is. He pointed out that the payment of \$20,000 would be coming from the "top of the well." He said [the payment] would come off of the reserve and the permanent fund would be finished, leaving nothing in the reserve account. The corpus of the fund would remain.

Number 0719

CHAIR HAWKER asked if the language on page 2, line 19 [Section 3, subsection (b)], triggers the mechanism whereby income in any account of the permanent fund is used for the [\$20,000] payments [as mentioned in] Section 30. He asked if, when that fund is depleted, any additional amounts needed would be withdrawn from the existing principal.

REPRESENTATIVE HOLM said he believes so.

CHAIR HAWKER stated, "In theory, when the income of the sub account is gone, and there remains a principal balance, it would then be operated under the POMV concept for endowment management."

REPRESENTATIVE HOLM said it would.

Number 0808

CHAIR HAWKER asked if Section 3, subsection (a), paragraph (2), the two references to statutes, received Legislative Legal and Research Services and were the only two hold harmless clauses needing consideration.

REPRESENTATIVE HOLM said they were.

REPRESENTATIVE WILSON asked if whatever is left in the permanent fund is set up and run under the POMV, what that amount might be.

REPRESENTATIVE HOLM opined that [the amount] will vary because the fund will change between now and when it is voted in, a year from now. Whatever the amount of money left, say \$15 billion to \$17 billion dollars, the projected return on investment is 7.6-7.8 percent, he added. He said he uses 8 percent, an easy number to work with; so then \$1.2 billion is generated as the return of the investment of the permanent fund. Of that number, if a POMV approach is used, 5 percent of the 8 percent would be used for government purposes and 3 percent would remain in the fund. That leaves \$800 million available for government services, which would not all have to be spent. He said there is a \$400 million shortfall, which leaves \$400 million, he suggested, to be put in the Constitutional Budget Reserve (CBR) to buffer the peaks and valleys of oil production.

REPRESENTATIVE WILSON said if that happens, deferred maintenance items could be worked on.

REPRESENTATIVE HOLM agreed with Representative Wilson's idea. He said money was also needed for Medicare, Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS), and appropriately funding education. He said those are issues that are difficult to solve under the current scenario.

Number 1121

CHAIR HAWKER asked about the intent of the language on page 2, lines 3-5, [Section 2, subsection (b)] paraphrasing, "that an appropriation from the fund may be made for any public purpose except for future dividends." He said it would be a matter for complete legislative judgment, as today, all of the [permanent fund] earnings are subject to legislative judgment.

REPRESENTATIVE HOLM said that is correct.

REPRESENTATIVE ROKEBERG cautioned Representatives Wilson and Holms that, even with up to \$800 million [possible], [the legislature] shouldn't be looking to spend that much, because, depending on the price of oil, it may not be enough to fill the gap.

CHAIR HAWKER concurred with Representative Rokeberg's comments.

Number 1238

REPRESENTATIVE ROKEBERG explained that, twice in the last decade, there has been over \$1 billion per fiscal year in shortfall in the availability of funding. Under this bill, under the 5 percent drawdown, there would be upwards to \$800 million, which, obviously, would be short. So, he said, it might not be feasible to meet revenue needs, and other methods of revenue enhancements might be needed in order to meet the gap, depending on the price of oil.

CHAIR HAWKER suggested, "Don't count your chickens before they hatch."

REPRESENTATIVE HOLM said that is why he is presenting the bill. He said it is the only program he has seen so far that allows for flexibility without taxation or other form of revenue enhancement. He opined it is the only inducement that people would support that would allow the legislature to do its work. This bill would provide a buffer zone, he said.

CHAIR HAWKER thanked Representative Holm and announced that public testimony would be scheduled in the future.

Number 1503

REPRESENTATIVE HOLM thanked the committee. He said, "We are all Alaskans, and we all have the opportunity now to make some significant changes if we will do it."

[HJR 31 was heard and held over.]

**ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 8:20 a.m.