

MINUTES
SENATE FINANCE COMMITTEE
1st Special Session
June 22, 2004
3:08 PM

TAPES

SFC-04 1stSS #1, Side A
SFC-04 1stSS #1, Side B
SFC-04 1stSS #2, Side A

CALL TO ORDER

Co-Chair Gary Wilken convened the meeting at approximately 3:08 PM.

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Fred Dyson
Senator Lyman Hoffman
Senator Donny Olson
Senator Ben Stevens

Also Attending: GOVERNOR FRANK MURKOWSKI; SENATOR GARY STEVENS; SENATOR BERT STEDMAN; SENATOR RALPH SEEKINS; SENATOR JOHNNY ELLIS; CHERYL FRASCA, Director, Office of Management and Budget, Office of the Governor; BOB STORER, Executive Director, Alaska Permanent Fund Corporation; WILLIAM CORBUS, Commissioner, Department of Revenue; JEFF OTTESEN, Director, Division of Program Development, Department of Transportation and Public Facilities

Attending via Teleconference: From an offnet Site: PAT PITNEY, Director of Budget Development and Institutional Planning, University of Alaska

SUMMARY INFORMATION

SJR101-CONST. AM: PERM FUND P.O.M.V.

The Committee heard testimony from the Office of Management and Budget, the Department of Revenue, and the Alaska Permanent Fund Corporation. The bill was held in Committee.

SJR102-CONST. AM: PERM FUND P.O.M.V.; DIVIDENDS

The Committee heard testimony from the Office of Management and Budget, the Department of Revenue, and the Alaska Permanent Fund Corporation. The bill was held in Committee.

SJR103-CONST AM: APPROPRIATION LIMIT

The Committee heard testimony from the Office of Management and Budget, the Department of Revenue, and the Alaska Permanent Fund Corporation. The bill was held in Committee.

SB1003-DISTRIBUTIONS OF APPROPS FROM PERM FUND

The Committee heard testimony from the Office of Management and Budget, the Department of Revenue, and the Alaska Permanent Fund Corporation. The bill was held in Committee.

SB1004-G.O. BONDS FOR UNIVERSITY PROJECTS

The Committee heard testimony from the Office of Management and Budget, the Department of Revenue, and the University of Alaska. The bill was held in Committee.

SB1005-G.O. BONDS FOR SURFACE TRANS. PROJECTS

The Committee heard testimony from the Office of Management and Budget, the Department of Revenue, and the Department of Transportation and Public Facilities. The bill was held in Committee.

#sjr101
#sjr102
#sjr103
#sb1003
#sb1004
#sb1005

SENATE 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.

SENATE 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.

SENATE JOINT RESOLUTION NO. 103

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

SENATE 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."

SENATE BILL NO. 1004

"An Act providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of design, construction, and major maintenance of facilities at the University of Alaska; and providing for an effective date."

SENATE BILL NO. 1005

"An Act providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of state surface transportation projects; and providing for an effective date."

This was the first hearing for these bills in the Senate Finance Committee.

GOVERNOR FRANK MURKOWSKI stressed that this special session was necessary in order to further efforts to resolve the State's fiscal dilemma. While there are differing opinions about how to address the State's fiscal crisis, it could be agreed upon that Alaskans are looking for and expect a solution from the Legislature. He recounted that today's Anchorage Daily News newspaper contains an editorial titled "Let's see some action" as well as an advertisement from the Conference of Alaskans urging consideration be given to their recommendations regarding how to remedy the fiscal situation.

Governor Murkowski stated that one of the "paramount" issues of this deliberation would be the decision regarding whether or not to

authorize that no more than five-percent of the value of the Permanent Fund could be spent in support of State government. Were this Percent of Market Value (POMV) proposal supported, the next decision would entail how that process should be implemented. The State has been dealing with its fiscal situation for more than a decade. He urged that a bipartisan solution be developed.

Governor Murkowski stated that the convening of the Conference of Alaskans this year was a different approach to addressing the State's fiscal dilemma. The Conference Delegates recognized that there is a problem and developed recommendations through which to address the fiscal issue. In addition, the Legislature listened to presentations from national bond rating agencies that portrayed that the State's "bond rating is in jeopardy." The Committee would be discussing, today, bond proposals amounting to \$76 million dollars for transportation enhancements as well as approximately \$36 million in University of Alaska bond authorizations.

Governor Murkowski reiterated that the State's citizens want a resolution to the State's fiscal dilemma. In addition to the \$410 increase that the Legislature authorized for the Student Foundation Funding Formula this year, additional monies would be required to appropriately fund education. The Constitutional Budget Reserve (CBR), the Permanent Fund's Earnings Reserve Account (ERA) and other funding sources could be utilized to support education. He reminded the Committee of his support for establishing a minimum CBR balance in order to address cash flow needs and to recognize that the price of crude oil "would eventually go down." In addition, he cautioned that State communities, especially Rural communities, would also require assistance, particularly for expenses such as fuel. He provided a detail sheet titled "Examples of community dividend distribution:" [copy on file] that depicts the various components of the allocation distributions proposed in SJR 102. This proposal would allocate approximately \$70 million to communities by distributing, for example, \$25,000 to each small community plus \$87 per resident. Large communities such as Anchorage would receive \$24 million and Fairbanks would receive seven million dollars.

Governor Murkowski stated that this Special Session was called because the Legislature did not develop a fiscal solution during the Twenty-Third Alaska State Legislature. The Conference of Alaskans adopted recommendations. The House of Representatives adopted a Percent of Market Value (POMV) proposal and the Senate did not.

Governor Murkowski stated that his Administration has developed legislation that would meet the needs of most Alaskans: The terms

proposed in SB 1003 are simple; the State's citizens must be assured that they would receive a dividend. The proposal would guarantee a minimum Dividend of \$1,000 or 50-percent of the five percent of the value of the Permanent Fund (PF), whichever is greater. The dividend would grow with the PF over time. He noted that when the gas pipeline and other resource developments come to fruition, the State would not require money from the PF. However, this "bridge" would be required until those supplemental revenue sources become available. Forty-five percent of the fifty-percent balance of the five percent of the value of the PF would be used to support education and five-percent of the amount would provide dividends to local governments.

Governor Murkowski also stated that a Constitutional Spending Limit must be implemented in order to limit or reduce government spending. In 18 months, State spending was reduced \$245 million, and, even though the education budget was increased \$88 million this year, the overall FY 05 budget only increased by \$17 million. State government staffing positions have been reduced by approximately 400 positions. He thanked the Legislators for their efforts in reducing the rate of State government growth.

Governor Murkowski stated that efforts must be made over the next decade to increase oil production, construct a gas line, extend the Alaska Railroad lines, open new mines, grow the economy, and develop new revenue streams. This is the time frame designated in SB 1003: the plan would be enacted for 10 years and then terminate. The dividend component would not be enshrined in the Constitution and would terminate at the end of ten years. The proposal would be accommodated by "modernizing the Fund as an endowment and spending a limited amount of its income." This would guarantee dividends, guarantee funding for education, and guarantee assistance for local governments. Through modernizing the Fund's management and spending five-percent of its income, the Fund would continue to grow. The Fund earned \$4.1 billion dollars the previous year. This 50/45/5 percent split proposal would cost approximately \$1.3 billion.

Governor Murkowski declared that a long-term fiscal plan would assist the State in increasing job opportunities and would assure the business community that the State is a good place to invest. It would continue the State's excellent credit rating, and thereby allow for bonds to be available at good interest rates to support State projects.

Governor Murkowski urged the Legislators to address these proposals and allow the State's citizens to vote on them. The alternate choice would be to raise revenue or deplete the Earnings Reserve Account after the CBR were depleted. Let the public vote on these

issues and make the decision. Polls reflect that 71-percent of Alaskans feel they have the right to vote on whether or not to utilize Permanent Fund earnings. 59-percent of those polled would support a minimum \$1,000 Dividend.

Governor Murkowski remarked that the Administration's proposals are "just a plan" that was drafted to address Alaskans' concerns. They could be altered. He urged that through compromise, the issues could be resolved. In addition to the fiscal proposals he highlighted, there is also a proposal through which to address workers' compensation issues that would reduce expenses to small businesses and a proposal to increase the tobacco tax in order to address health issues.

Governor Murkowski concluded his remarks.

Senator Dyson expressed concern with the proposal to utilize the principal of the Permanent Fund even were a ten-year provision included. In addition, the funding priorities specified in the proposal appear to place more importance on the specified components and his concern is that funding for such things as law enforcement, which is not an identified component, would be jeopardized.

Governor Murkowski acknowledged the concern, but pointed out that, the protection of the PFD is paramount to the public's "prevailing attitude." Education is their second highest priority. Public health and safety are among the top five public concerns. He noted that the number of Alaska State Troopers has increased and attempts have been made to further health care concerns such as prescriptive medication expenses. The proposal before the Committee would allow for the amount of the PFD to be declared each year based on a five-year average of the value of the Fund. The proposal would guarantee that the Dividend would be paid as supported by the citizens. The process would be re-evaluated at the end of the ten-year period. This is an effort to address the public's position in this regard. He emphasized that rather than abandoning this issue were this proposal unacceptable, Legislators could approach it differently. He urged them to address it.

Senator Dyson addressed the comment that, were a spending plan not adopted, the choices would be to either utilize the CBR and the ERA or increase taxation. However, a third option, which would be a further reduction in State spending, was not addressed. Therefore, he asked what efforts are being taken by the Administration, and in particular the Department of Health and Social Services, to streamline operations and further contain spending. Further reductions in State spending are his top priority. He pointed out

that the fact that the FY 05 overall budget is only \$17 million more than FY 04, even with the \$88 million increase for education, signifies the efforts made by the Legislature to reduce spending. Further cooperation with the Administration in this regard would be beneficial. He opined that even were the Administration's Spending Limit, POMV, and the 50/45/5 proposals adopted, without an increase in revenues through taxation, funding from the CBR and eventually the ERA would be required next year. A "disservice" would continue to be provided to education, as, in order to adequately fund it were the price of oil to decline, funding from the CBR would be required. In conclusion, he asked whether further reductions to State government would be required in order to address the State's fiscal situation.

Governor Murkowski stated that he would welcome recommendations from the Legislature in this regard.

Senator Bunde asked the Governor's response were the Legislature to address these proposals in a Statutory manner rather than to further them via a statewide ballot proposal process. He warned that a vote of the people might preclude the Legislature from utilizing Permanent Fund earnings for an extensive period of time rather than allowing them to use it.

Governor Murkowski expressed that he is aware that the Legislature has this authority. That right would not be challenged. However, he communicated the belief that a vote of the people should be allowed when a change in the Permanent Fund is being proposed.

Co-Chair Wilken thanked the Governor for his comments.

Co-Chair Wilken announced that Ms. Frasca would be presenting brief overviews on the bills.

CHERYL FRASCA, Director, Office of Budget and Management, Office of the Governor, stated that SJR 101 mirrors the HJR 26-CONST. AM: PERMANENT FUND P.O.M.V legislation that passed the House of Representatives at the end of the second session of the Twenty-Third Alaska State Legislature. It proposes that five percent of the value of the Permanent Fund could be appropriated.

Ms. Frasca stated that SJR 102 is the Constitutional distribution legislation that would specify that fifty-percent of the five-percent of Fund Value POMV proposal allotment would support a minimum \$1,000 PFD and the fifty-percent balance of that allotment would be divvied up with 45-percent going to support education and five-percent going to support local communities.

Ms. Frasca stated that SB 1003 would mirror SJR 102 with the exception being that the provisions would be enacted Statutorily rather than Constitutionally. This approach would address Senator Bunde and Senator Dyson's concerns.

Ms. Frasca stated that the level of the Permanent Fund, as it is currently formulated, could be very volatile in the future. Were SJR 102 enacted, the PFD amount declared in October 2005 would be \$1,000. At status quo, there is a 24-percent chance that it would be at that level. This would be further addressed in forthcoming testimony from the Permanent Fund Corporation Executive Director, Robert Storer.

Ms. Frasca stated that the 45-percent to education proposal would assist in addressing future Public Employee Retirement System (PERS) and Teacher Retirement System (TRS) obligation expenses to school districts. The FY 05 obligation is projected to amount to \$39 million with another \$130 million projected for the following three years. This would be a challenge. The 45-percent to education proposal would provide a solid funding base through which to support the K-12 student foundation funding formula and the University of Alaska. In FY 05, \$970 million would be provided to support the K-12 formula and the University.

Ms. Frasca stated that the five-percent to local governments would provide funding to State communities. She referenced a Department of Community and Economic Development handout, titled "Examples of community dividend distribution" [copy on file] that depicts various community allocations, but noted that the Legislature would have the final determination in this allocation. In addition to the challenge of funding fuel expenses, local communities must also provide an estimated \$22 million in PERS expenses in FY 05 and \$61 million over the following three years.

Ms. Frasca clarified that while SJR 102 contains a ten-year Constitutional termination date, SB 1003 does not, as changes in Statute could be made by a majority vote.

In response to a question from Senator Bunde, Ms. Frasca stated that were SJR 102 enacted, its provisions would terminate in ten years. The Legislature at that time could introduce a new proposal or ask voters to re-ratify the existing proposal.

Ms. Frasca informed that SJR 103 proposes a Constitutional Spending Limit this mirrors the legislation adopted by the Senate Finance Committee this past Session.

Ms. Frasca stated that SB 1005 is a \$77 million Transportation Bond

package that addresses congestion issues, primarily in Anchorage. Other projects that would be addressed by this bond package are located in Fairbanks, the Mat-Su valley, the Yukon-Kuskokwim transportation corridor, and other areas.

Ms. Frasca explained that SB 1004 would provide approximately \$39 million for the University of Alaska system Statewide.

Ms. Frasca stated that these two bond packages would not transpire were a fiscal plan not authorized as the goal is to not to further burden the State's bond rating.

Co-Chair Wilken announced that the bills would now be discussed individually.

[NOTE: Co-Chair Green chaired this portion of the meeting.]

#sjr101

SENATE 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.

WILLIAM CORBUS, Commissioner, Department of Revenue, reviewed five reasons that support the adoption of the POMV proposal: 1) "it would provide a more reliable revenue stream for the future," were oil companies and others to not make the necessary investments in the States' resources that would generate the projected next decade of revenues; 2) it would allow the issuance of State debt needed to satisfy capital needs, including transportation and education needs as exemplified by the bond packages in SB 1004 and SB 1005; 3) "it would provide a steady reliable dividend stream" for residents; 4) it would be a "much better management tool" than that currently in place through which the Permanent Fund Corporation could manage the Fund; and 5) it would provide a spending limit on the Permanent Fund. There is approximately four billion dollars in the Fund "now that is theoretically available" for Legislative appropriation.

Commissioner Corbus reiterated the Governor's request that the State's budgetary deficit be addressed now. Regardless of the favorable oil prices currently being realized, POMV would provide a solution to the problem until other new revenue sources come to fruition.

BOB STORER, Executive Director, Alaska Permanent Fund Corporation,

stated that POMV would be a Fund management change that would allow that no more than five-percent of the five-year average of the value of the Fund to be utilized to support State government. The status quo formula is volatile. The Permanent Fund Board of Trustees has emphasized that POMV is a management tool. One question asked of the Board regards how the Dividend would be affected by the POMV proposal. Two levels of information are produced by the Board in this regard: the most commonly viewed is the linear model which does not consider market volatility and simply projects five-percent of the Fund's value into the future, with steady growth. This model could be quickly and easily produced. The second model considers market volatility. There is internal debate as to whether to include market volatility with other PFD projections including: population estimates; the size of the Fund; the extrapolations; and the real rate of return. He provided a chart titled "Volatility in change in FY 10 per person dividend projection over time" [copy on file] that was developed encompassing the volatility factor. It reflects that, in a matter of months, the per capita dividend amount could change "very quickly," as the result of "the enormous influence" of short-term market performance.

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Mr. Storer concluded that this must be considered "when evaluating what the numbers would look like as we move forward." In the future, "the disparity would become ever greater from quarter to quarter, month to month" based on stock market fluctuations.

Co-Chair Green asked for further explanation of the graph.

Mr. Storer replied that the FY 10 dividend projection graph, which was based on three-month incremental extrapolations of actual stock market fluctuations from September 1999 through June 2004, reflects how these market fluctuations would influence the dividend amount.

Senator Bunde stated that a more pessimistic view of the future is developed upon observing the FY10 Dividend projection graph.

Senator Bunde questioned how the Legislature's decision not to utilize the four billion dollars in the ERA could have a negative affect on the State's bond market rating, as is "rumored."

Commissioner Corbus commented that the Standard & Poors Credit Rating Agency had, during a previous presentation to the Committee, communicated that the development of a plan and a methodology for

stabilizing the Fund, such as the POMV proposal, would meet desired criteria. Leaving the money in the Permanent Fund in the status of being potentially available to the Legislature for appropriation would not suffice.

Senator Bunde asked whether an actual expenditure of that money, regardless of any methodology being developed, would satisfy the bond market's concern, as he pointed out that POMV does not specify how the funds should be dispersed.

Commissioner Corbus responded that rather than questioning the fact that the funds are available, they are concerned, for credit purposes, whether they are "politically accessible."

Senator Bunde understood therefore that the expenditure of approximately \$40 million of Fund money for such things as hold-harmless and the processing of the Permanent Fund Dividend applications would not be recognized as an "indication of accessibility."

Commissioner Corbus responded that the basis of the concern is the ability to access the Fund to help balance the State's budget's difference in spending and revenue.

Senator Olson noted that, as depicted on the chart, the Fund appeared to stabilize after September 11, 2001.

Mr. Storer responded that the financial market began to rally after September 2001. The quarterly returns since that point have stabilized.

Senator Hoffman observed that under the status quo dividend system each Alaskan is projected to receive a total of \$16,440 in PFDs for the FY 05 - FY 15 period, as reflected in the Department of Revenue's spreadsheet that is attached to fiscal note #2, dated June 19, 2004. However, the projections indicate that the POMV proposal payouts for that same period would be approximately \$4,000 less. The POMV proposal might be more palatable to voters were the payouts aligned. Therefore, he calculated that were SJR 102 altered to reflect a 60-percent payout for Dividends, 35-percent for State services, and five-percent for local governments, it might be more acceptable to Alaskans.

Commissioner Corbus stated that the Administration would welcome alternative proposals in order to further these efforts.

Co-Chair Wilken pointed out that a CBR draw might not be required in FY 04. Had the POMV proposal been in place, an additional \$1.3

billion would have been made available, but would not have required to fund the budget.

Commissioner Corbus replied that many changes including increasing needs and decreasing revenues are forecast for the future. He clarified that only half of the \$1.3 billion would have been available for the State's operating expenses.

Co-Chair Wilken noted that it is important to realize "the mechanics" associated with the adoption of the POMV program. Were the FY 05 budget based on \$32 per barrel oil prices, a budget deficit of \$387 million dollar was projected. However, due to the fact that the price of oil has increased to \$35 per barrel, no budget deficit is forecast. Were the POMV plan implemented, the State would receive five-percent of the value of the Permanent Fund whether it was needed or not.

Commissioner Corbus reminded that, in addition to the POMV proposal, there is also a spending limit proposal.

Co-Chair Wilken acknowledged and clarified that his question relates to the scenario absent a spending limit.

Commissioner Corbus expressed that Co-Chair Wilken's scenario, looking forward, is based upon there being status quo expenditures. This would not be the case.

Mr. Storer pointed out that the Permanent Fund Board of Trustees' interpretation of the POMV plan is that it would specify a limit of "no more" than five-percent of the value of the Fund. This currently would allow for "up to" \$1.3 billion dollars being available for appropriation. "X percent" of that amount, whether it is fifty-percent or sixty-percent, would be dedicated to meet the Dividend obligation. The usage of the balance would be determined by the Legislature who might decide not to appropriate it and thereby allow it to remain in the Fund. The other side of the equation is that once people get used to spending that money, it would become habitual. Three options could include: leaving it in the Fund; moving it to the CBR, or moving it to the General Fund.

Co-Chair Wilken summarized that the Legislature could either spend it or move it to the General Fund, leave it in the Fund, or move it to the CBR.

Co-Chair Wilken understood that money left in the Permanent Fund could not be used as a credit in another fiscal year.

Mr. Storer affirmed. It would be considered as a special

contribution to the Fund that would be compounded and earn money for the Fund. He reiterated that "the essence of POMV" is that no more than five-percent of the Fund's balance could be appropriated.

Senator Hoffman understood that the average earnings of POMV are projected to be eight-percent with three-percent of that to offset inflation. He asked for clarification of previous POMV testimony in which it was stated that in some years the earnings might be less than eight percent.

Mr. Storer expressed that during the development of the POMV plan, several different scenarios were discussed, with some including a Statutory guideline utilizing a ten-year moving rate of return earnings average. He reiterated that different language could be crafted.

Co-Chair Green understood from the Standard & Poors' presentation that "their primary objective" was that the State of Alaska develop a "sustainable new source of revenue" such as an income tax or a sales tax. This was paramount to being able to access the ERA.

[NOTE: Co-Chair Wilken assumed chair of the meeting.]

Ms. Frasca noted that the volatility of the stock market's affect on the PFD, as explained earlier by Mr. Storer, supports Senator Hoffman's concern relating to fluctuating earnings amounts and how they would influence the amount of the PFD. She stressed that while the status quo projection for FY 05 through FY 15 might be for \$16,000 in total dividends, this is a projection and might not be realized.

Senator Hoffman referenced the status quo Dividend projection as depicted in the spreadsheet accompanying fiscal note #2. The problem is that voters understand that, were they to not approve POMV, Legislators would not eliminate the PFD. A re-evaluation of the POMV dividend program percentage might be required to win voter approval. He reiterated his suggestion that 60-percent of the earnings rather than 50-percent be the basis for the PFD.

Mr. Storer responded that, while he could not speak to the percentage level as that is a policy decision, two components should be considered in the monetary projections; one being the volatility of the financial market and the other being "current Statutes that contemplate less than a five-percent payoff." Were more than five-percent allocated, the size of the Fund would be reduced. A smaller Fund would reduce the amount available for future PFD allocations.

Senator Hoffman pointed out that the aforementioned chart depicts that under POMV the projected Fund value would be approximately \$37 billion in FY 15. The current system, with its higher dividends, would have a balance that exceeds the projected POMV balance by eight million dollars.

Ms. Frasca commented that, in regard to the \$1.3 billion that would be available were the POMV plan implemented, this is the reason that the Administration regards the spending limit legislation, SJR 103, as part of the packet. These are not stand alone issues but are rather parts of a package. She pointed out that even though the Legislature currently has the ability to appropriate the money in the ERA, it does not mean that they do. Therefore, were there a balanced budget, the fact that the Legislature could access money through the POMV, would not require that it be spent. Including the spending limit legislation with the POMV proposal would assure Alaskans that "government would not grow at the expense of the Permanent Fund earnings."

Co-Chair Wilken referenced the sheet titled, "Examples of community dividend distribution" that was provided by the Governor; which depicts that the community dividend being proposed would provide the Fairbanks North Slope Borough \$4.6 million and the City of Fairbanks \$2.6 million. He understood that rather than this being new money, it would be a fund source change.

Ms. Frasca clarified that this would be new funding. It would serve to offset funding that was once available in the form of such things as revenue sharing and municipal sharing programs. This sheet depicts a hypothetical methodology developed by the Department of Community and Economic Development. She stated that each unincorporated community would receive \$25,000, each city would receive \$50,000, and each borough would receive \$250,000. Additional per resident allowances would also be provided.

Senator Hoffman asked whether language should be incorporated into the ballot measure to specify that were either the POMV or the spending limit proposal defeated, neither would be enacted.

Ms. Frasca stated that such language could be incorporated. This had been considered.

Co-Chair Wilken stated that the discussion "blended together" information relating to both SJR 101 and SJR 102.

Senator B. Stevens declared that, while he appreciates the discussions, no new information has been presented.

#sjr102

SENATE 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.

Ms. Frasca stated that this proposal is a new approach in that it would incorporate into the State's Constitution an appropriation distribution plan.

Senator Hoffman asked the reason a ten-year termination date pertaining to the Permanent Fund Dividend was incorporated into the proposal. He argued that eliminating that termination clause might make the proposal more acceptable to voters.

Commissioner Corbus responded that it is included to address concern about enshrining the Dividend in the Constitution. This would provide an opportunity to review the decision in ten years.

Ms. Frasca noted that projections indicate that new resource revenues would be realized in approximately ten years. Therefore the ten-year timeframe would provide a temporary bridge until that time. It would allow an opportunity to re-evaluate the State's finances in ten years.

Senator Hoffman stated that it might be more advantageous to specify now that the Permanent Fund Dividend would be permanent rather than allowing this issue to become a political issue in ten years.

Senator Bunde commented, "or the reverse is that we will opt to enshrine any entitlement and it'll be permanent."

Senator Hoffman stated that no one would campaign to lower the percent allotted to the Permanent Fund Dividend program.

Senator Bunde countered that this would be avoided were the Dividend not enshrined in the Constitution.

Senator B. Stevens opined that the times of campaigning "on the Dividend are over."

#sjr103

SENATE JOINT RESOLUTION NO. 103

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

Co-Chair Wilken stated that this legislation would repeal and replace the existing appropriation limit in the Constitution with a spending limit that would establish a moving three-year average as the base for the application of the limit. This legislation would terminate on July 1, 2009.

Ms. Frasca commented that this proposal mirrors the committee substitute for HJR 9 that was adopted by the Senate Finance Committee. That committee substitute incorporated three new amendments into the bill. The House accepted two of those: the no-ratchet down clause and the exemption provided to the receipts of the University of Alaska.

Senator B. Stevens recounted the Committee and Senate floor action on the bill. This resulting Senate Finance bill essentially failed passage three times in the Senate.

Ms. Frasca interjected that it failed two rather than three times.

Co-Chair Wilken understood that the Committee had passed an amended House version of the bill.

Senator Dyson commented that insufficient time has been made available to review the material. Language in this bill appears to differ from the version reported out of the Senate Finance Committee as SJR 103 does not specify which of the two limiting factors depicted in Section 1, Subsection 16(a)(1)(B) on line 14, page one or in Section 1, Subsection 16(a)(2) on page two, line two should be used in the calculation. The desire was that the lesser of either Section 1, Subsection 16 (b) or (c) be utilized.

Ms. Frasca responded that this would be reviewed with the bill's drafter, as the understanding was that the bill reflects that desire.

Senator Dyson voiced support for the language that was adopted by the Senate Finance Committee. He asked for confirmation that such things as the exemption of the University's bookstore receipts were incorporated into SJR 103.

Ms. Frasca assured that the University exemptions were provided in the bill as reflected on Section 1, Subsection 16(d)(11) on page three, line twelve.

Senator Dyson acknowledged.

Senator Dyson asked for assurances that the exceptions approved by the Senate Finance Committee were, in their entirety, included in SJR 103.

Ms. Frasca assured that while drafting clarifications were conducted, the intent of the language in SJR 103 should mirror that of the Senate Finance Committee bill that reported from Committee. This would be further verified with the drafter. Language pertaining to the drafting of language for clarification purposes is specified in Section 1, Subsection 16 (e) on page three, line 22 of the bill.

#sb1003

SENATE 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."

Co-Chair Wilken stated that this legislation would serve to allocate the dollars available for appropriation from the Alaska Permanent Fund, were the POMV amendment adopted.

Ms. Frasca stated that this legislation would Statutorily provide for the distribution of the earnings under the POMV payout. It would specify that 50-percent of the payout would be dedicated for Dividends, 45-percent would provide for State services, and five-percent would be allocated to municipal dividends. Statutory rather than Constitutional language would be enacted by this bill.

#sb1004

SENATE BILL NO. 1004

"An Act providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of design, construction, and major maintenance of facilities at the University of Alaska; and providing for an effective date."

Co-Chair Wilken stated that this bill would authorize the issuance

of general obligation (GO) bonds to finance capital improvement projects for the University of Alaska. \$38,904,000 would be provided to address the University's most critical needs.

Ms. Frasca stated that the \$39 billion GO bond package would address projects identified by the University. The caveat is that were no fiscal plan adopted, these funds would be nullified.

Senator Bunde asked for a better definition of what would qualify as a fiscal plan.

Ms. Frasca stated that language in this regard is located in the bill in Section 10, page four beginning on line 26. The reason the issuance of the GO bonds is tied to the fiscal plan is to prevent any further burden from negatively affecting the State's bond rating.

Sec. 10. Sections 1-7 of this Act take effect on the date that the lieutenant governor certifies to the revisor of statutes that

(1) a majority of the qualified voters of the state who vote on the question at the 2004 general election affirmatively voted in favor of the 2004 amendments to the Constitution of the State of Alaska relating to and limiting appropriations from the Alaska permanent fund based on an average percent of the fund market value; and

(2) the issuance of bonds authorized by this Act is ratified by a majority of the qualified voters of the state who vote on the question at the 2004 general election.

Senator Bunde understood therefore that the "Pure POMV" and the spending limit must be approved in order for these GO bonds to be allowed.

Ms. Frasca clarified that, while voters must approve POMV and the use of the earnings, the approval of a spending limit would not be required.

Senator Bunde asked whether language in Section 10 regarding "limiting appropriations" would refer to a spending limit.

Ms. Frasca clarified that the language pertains to appropriations from the Permanent Fund.

Senator Bunde understood therefore that were the POMV adopted, the University bond package could go forward.

Ms. Frasca stated that this is how it is envisioned. The Department

of Revenue would be able to answer the concern as to whether the adoption of the POMV without a spending limit would affect the State's bond rating.

Commissioner Corbus understood, from the Standard & Poors testimony, that the adoption of a "POMV" program would be satisfactory.

Senator Hoffman asked the reason that K-12 school construction was not included in this proposal.

Ms. Frasca understood that this legislation specifically concerns funding for the University of Alaska as K-12 school construction is addressed through the school debt retirement program. Approximately \$80 million was provided to that program in FY 04. In addition, a K-12 school bond package was approved a few years prior and some of those projects are underway today. Therefore, at this time, a smaller package specifically to address University needs is being proposed.

Co-Chair Wilken asked for an overview of the University projects identified beginning on page two, beginning on line twelve through line thirteen on page three; specifically whether the projects would be new, would be upgrades, or would complete a project.

Ms. Frasca stated that this information would be provided.

PAT PITNEY, Director of Budget Development and Institutional Planning, University of Alaska testified via teleconference from an offnet site, and noted that the first project listed, the Anchorage campus's Integrated Science Facility construction would be considered as being in its first phase.

Co-Chair Wilken asked that descriptive information for the 13 projects be provided.

Ms. Pitney stated that this information would be provided.

The bill was HELD in Committee.

SFC-04 1stSS #2, Side A 4:43 PM

#SB1005

SENATE BILL NO. 1005

"An Act providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of state surface transportation projects; and providing for an

effective date."

This was the first hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken stated that this legislation would authorize the issuance of GO bonds to fund surface transportation capital improvement projects amounting to \$76,700,000.

Ms. Frasca stated that the descriptions of the projects are included in the bill packet. The benefits of these projects include: alleviating congestion, safety issues; resource development relationship projects; and supplementing existing funding that was generated by a year 2002 GO bond package. In addition, the bill would provide funding for a program in which the State would upgrade a road within a community with the understanding that the community would, going forward, assume responsibility for it.

Senator Bunde noted that problems currently exist in the Municipality of Anchorage in that there are State roads within the Municipality. The Municipality does not maintain those roads.

JEFF OTTESEN, Director, Division of Program Development, Department of Transportation and Public Facilities explained that language in this bond package would clarify that, were the State to construct a road within a municipality, the ownership and obligation of the road would belong to the municipality.

Senator Bunde asked whether, upon completion of the intersection upgrade at the Lake Otis and Tudor Roads, which are State roads, those roads would become the responsibility of the Municipality of Anchorage.

Mr. Ottesen clarified that the language is specific to new construction rather than upgrades. Therefore, these roads would not be affected.

Senator Hoffman asked regarding Item #9 in the package, which is the Aleknagik-Wood River Bridge Design. This project has been discussed for at least ten years. He understood that the planning and design of the project had been completed but that right of way issues have developed.

Mr. Ottesen stated that, being funding dependent, project work has been sporadic. The Environmental Impact Study (EIS) has recently been completed. The next phase would be to complete the final

design. While the authority to expend federal dollars had been previously approved, that funding had not materialized. This area has a tragic safety record, including several drownings that occurred when people attempted to cross the river, and is on the Governor's priority list.

Senator Bunde asked how the three Anchorage projects were chosen, specifically whether citizens were involved in the process. He noted that due to the fact that the projects are State roads, the federal Anchorage Metropolitan Transportation Study (AMATS) was not a factor.

Mr. Ottesen responded that while no direct citizen involvement occurred, the projects are high priorities of both the State and the Municipality as the Midtown area is a very congested bottleneck. Completion of these projects would significantly alleviate congestion in that area.

Senator Bunde understood therefore that the State and the Municipality made the decision.

Mr. Ottesen affirmed.

Senator Hoffman asked regarding Item #12, the Yukon-Kuskokwim Rivers Transportation Corridors EIS & Design project.

Mr. Ottesen stated that this project for allow for the continuation of a transportation corridor in the Donlin Creek Mine area. Federal and State bond funding provided prior funding. This project would enhance resource development in the area; specially coal deposits.

Senator Hoffman asked for further information regarding the location of this project.

Mr. Ottesen explained the area is near St. Mary's in the Kuskokwim River drainage.

Co-Chair Wilken asked the Department to provide an explanation regarding each of the projects and whether the funding would be regarded as the beginning, the continuation, or the completion of the project.

Senator Bunde spoke to the Administration's position that a long-range fiscal plan must be developed before any further bond indebtedness could occur. He asked whether this position is specific to this Special Session.

Ms. Frasca stated that this reflects the Governor's position in

regards to any further GO debt to the State. It is not specific to this Special Session.

Senator B. Stevens asked whether the Governor has possession of the operating and capital budgets at this time.

Ms. Frasca did not think so, but would verify this. The Administration has been requesting information from Legislators regarding SB 283-APPROP:CAPITAL/SUPPLEMENTAL/REAPPROP/CBR in order to review it for public record.

In response to a question from Co-Chair Green, Ms. Frasca explained that the information being requested is in regard to any additions to the bill, for such things as local district projects.

Co-Chair Green stated that in the ten years that she has been involved in the Legislature, she has not experienced such a request from the Administration.

Co-Chair Wilken understood that the request regards "legislative add-ons."

Ms. Frasca stated that this request would be similar to information requested by the Co-chairs regarding projects.

Senator B. Stevens asked whether the outcome of this Special Session would have any weight on the Governor's decision pertaining to legislation that passed the Legislature during the Second Session of the Twenty-Third Legislature.

Ms. Frasca responded that the Governor could more appropriately respond to that question.

Co-Chair Wilken ordered the bill HELD in Committee.
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ADJOURNMENT

Co-Chair Gary Wilken adjourned the meeting at 04:56 PM.