

HOUSE FINANCE COMMITTEE
April 25, 2005
8:33 A.M.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [8:33:20 AM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Richard Foster
Representative Mike Hawker
Representative Jim Holm
Representative Reggie Joule
Representative Mike Kelly
Representative Carl Moses

MEMBERS ABSENT

Representative Bill Stoltze, Vice-Chair
Representative Eric Croft
Representative Bruce Weyhrauch

ALSO PRESENT

Pete Ecklund, Staff, Representative Kevin Meyer

SUMMARY

HB 187 An Act establishing the Alaska capital income account within the Alaska permanent fund; relating to deposits into the account; relating to certain transfers regarding the Amerada Hess settlement to offset the effects of inflation on the Alaska permanent fund; and providing for an effective date.

CS HB 187 (FIN) was reported out of Committee with a "no" recommendation and with a zero note #1 by the Alaska Permanent Fund Corporation.

[8:33:39 AM](#)

#HB187

HOUSE BILL NO. 187

An Act establishing the Alaska capital income account within the Alaska permanent fund; relating to deposits

into the account; relating to certain transfers regarding the Amerada Hess settlement to offset the effects of inflation on the Alaska permanent fund; and providing for an effective date.

Representative Hawker MOVED to ADOPT work draft #24-GH1070\I, Cook, 4/23/05, as the version before the Committee. There being NO OBJECTION, it was adopted.

PETE ECKLUND, STAFF, REPRESENTATIVE KEVIN MEYER, provided an overview of the handout drawing. (Copy on File).

Currently, the principle of the Permanent Fund including the Amerada Hess principle is inflation proofed after paying dividends. Under the adopted committee substitute, when the Amerada Hess portion has earnings, the Permanent Fund Corporation would determine the amount of the inflation proofing, calculated from the total value, calculates the dollar amount and then removes it from the Amerada Hess earnings and places it into the Amerada Hess principle. Under current statute, the remainder of the earnings from the Amerada Hess principle is placed back into that fund.

The larger section of principle is inflation proofed from the Earnings Reserve Account. Under the committee substitute, the inflation proofing would be calculated on the total value of the principle, including the Amerada Hess section. That amount would be paid out of the Earnings Reserve Account and applied to the principle other than the Amerada Hess principle. The Amerada Hess principle would stay static at \$420 million dollars; it would not grow. The total value of the principle of the Permanent Fund would be inflation proofed at the correct rate out of the Earnings Reserve Account and the earnings from the Amerada Hess would flow into the Alaska Income Fund.

Mr. Ecklund advised that the proposal would be "neutral" on dividends as both the principle and the Earnings Reserve Account would be invested in the same way and used in the dividend calculation in the same manner. Whether money is in principle of the Permanent Fund or the Earnings Reserve Account, it would have no affect on the dividend checks.

Representative Kelly attempted to understand the transfer for inflation proofing including that for the Amerada Hess component, it would all be placed into the principle of the Permanent Fund. Mr. Ecklund explained that earnings from the Amerada Hess section would be providing the inflation proofing for the Permanent Fund.

Representative Kelly understood that the bill would transfer earnings from the Amerada Hess fund into useful principle dollars for the Permanent Fund. Mr. Ecklund remarked that the entire principle of the fund would be inflation proofed

as it is at this time. The difference is that Amerada Hess account would not be inflation proofed. That action would have no affect on dividends as the inflation proofing comes from the Earnings Reserve Account into the principle of the Permanent Fund. The value of those investments would be used in the dividend calculation in the same way; however, the Amerada Hess account would not be growing.

Representative Kelly wanted to make certain that the legislation would not negatively affect the Permanent Fund dividends. Co-Chair Meyer noted that it would protect the dividends. Mr. Ecklund interjected that it protects the principal at present time.

Representative Kelly hoped that the availability of the Permanent Fund corpus would be slightly advantaged by passage of the legislation. Co-Chair Meyer reiterated that the proposed bill would no longer inflation proof the Amerada Hess sub account.

Representative Hawker acknowledged that was correct. He pointed out that the legislation insures inflation proofing of the entire principle of the Permanent Fund, using the current statutory formulas for inflation proofing. He stressed that members could be assured that the proposed approach was "neutral" and applied to the whole fund. He added that the State would no longer continue to inflation proof the Amerada Hess component. The State will be able to extract from that, the full earnings. The trade-off is that there will be more cash today; however, the State would loose "buying power" in the future.

Representative Hawker advised that he would be sending it out of Committee with a "no recommendation", as it could affect future earnings. He noted that the bill was a "good compromise".

Co-Chair Meyer explained that this year's intent was to use the earnings for debt retirement and/or the capital budget. The Governor has proposed using up to \$340 million dollars for bonding.

[8:45:57 AM](#)

Representative Kelly clarified for the record, that the bill would neutrally affect the Permanent Fund dividend. He indicated that he would "find it difficult" to vote for anything using the Permanent Fund.

Co-Chair Meyer stated that the legislation would have no impact on the dividend.

[8:47:20 AM](#)

Representative Hawker MOVED to REPORT CS HB 187 (FIN) out of Committee with individual recommendations and with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CS HB 187 (FIN) was reported out of Committee with a "no" recommendation and with a zero note #1 by the Alaska Permanent Fund Corporation.

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ADJOURNMENT

The meeting was adjourned at 8:48 A.M.