

HOUSE FINANCE COMMITTEE
March 26, 2008
1:45 p.m.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:45:12 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Harry Crawford
Representative Les Gara
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Bill Thomas Jr.

MEMBERS ABSENT

Representative John Harris
Representative Mary Nelson

ALSO PRESENT

Frank Richards, Deputy Commissioner of Highways & Public Facilities, Department of Transportation and Public Facilities; Greg Winegar, Director, Division of Investments, Department of Commerce, Community and Economic Development; Jerry Burnett, Director, Division of Administrative Services, Department of Revenue; Debbie Richter, Director, Permanent Fund Dividend Division, Department of Revenue; Allie Fitzjarrald, Acting Director, Division of Public Assistance, Department of Health and Social Services.

SUMMARY

HB 278 An Act relating to sex offenders and child kidnappers.

CS HB 278 (JUD) was SCHEDULED but not HEARD.

HB 367 An Act relating to the sale of raw milk and raw milk products.

HB 367 was SCHEDULED but not HEARD.

HB 396 An Act relating to and increasing the amount of the 2008 permanent fund dividend; and providing for an effective date.

HB 396 was HEARD and HELD in Committee for further consideration.

HB 400 An Act relating to a person who seeks medical assistance for a person experiencing a drug overdose.

HB 400 was SCHEDULED but not HEARD.

SB 249 An Act establishing the Alaska capstone avionics revolving loan fund and relating to the fund; and providing for an effective date.

SB 249 was REPORTED out of Committee with a "do pass" recommendation and with new zero fiscal note by the Department of Transportation and Public Facilities and fiscal note #1 by the Department of Commerce, Community and Economic Development.

[1:47:50 PM](#)

SENATE BILL NO. 249

An Act establishing the Alaska capstone avionics revolving loan fund and relating to the fund; and providing for an effective date.

Representative Thomas asked if Fish and Game and other Alaska enforcement aircraft that does not want to be identifiable would be exempt from the program.

FRANK RICHARDS, DEPUTY COMMISSIONER OF HIGHWAYS & PUBLIC FACILITIES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, said there was a Department of Fish and Game amendment to equip seven aircraft, but he thought Representative Thomas might be referring to Department of Public Safety law enforcement aircraft. The Department was reluctant to equip planes that they did not want to be tracked. He said the Federal Aviation Administration (FAA) was working on technology to prevent transmission so that certain aircraft could be equipped and not be tracked.

Representative Thomas thought if the avionics program was being brought forward for safety reasons it seemed counterproductive to have aircraft that could not be seen.

Representative Gara asked if the program had ever been a grant program. Mr. Richards replied that initially the aviation community had talked about a grant program.

Representative Gara wondered what the interest rate would be and if the program would lose or make money.

GREG WINEGAR, DIRECTOR, DIVISION OF INVESTMENTS, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, said the interest rate would be 4%. All expenses would be paid for out of the fund. At sunset in 2020 the earnings would return to the General Fund. There was a discussion about inflation proofing the fund so that it would not cost the State over time.

[1:53:41 PM](#)

Co-Chair Chenault referred to the language in the bill establishing the interest rate at not less than 4% and questioned who within the Department under what authority would establish the exact interest rate. He wanted to know why the bill did not establish the rate. Mr. Winegar replied that the rate could be stipulated in the law, or regulations could establish it. The Division came up with 4% because it was low and provided for reasonable repayment amounts, while ensuring that the fund paid its own way.

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Representative Gara wanted a standard, such as "prime plus one and a half," that would adequately capitalize the fund so that by 2020 the State would get its money back. The statute gives no guidance. Mr. Winegar replied that the language is patterned on other similar loan programs. He said a number of variables played into the decision. Until the funds are loaned out they are invested by the Department of Revenue, and those earnings will also be retained by the fund. The numbers had been run with conservative default rates and he was confident that the original principal plus a substantial amount of earnings would go back to the General Fund.

Representative Gara proposed language stipulating that the rate would reflect an amount that would protect the purchasing power of the endowment. Mr. Winegar thought the language already in the bill was sufficient. Representative Crawford stated the goal was to make the skies safer and he wanted to see the avionics operating. If inflation continues at about 3-4%, he thought the 4% minimum would work.

Mr. Winegar responded further that the FAA has done studies estimating that savings from lost lives and search and rescue costs would be well over \$800 million to the State over a 27-year period.

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Representative Gara reiterated his concerns with not putting standards for rates in legislation.

Co-Chair Chenault asked if \$4.8 million would be enough considering the goal is to equip 4,000 aircraft. Mr. Winegar replied that the amount would probably not cover equipping all of the aircraft. However, a revolving fund allows leveraging the money; the Division could potentially make about \$13 million in loans with that amount. If loan demand is higher, they may need to come back.

Co-Chair Chenault thought the program should move forwarding order to save Alaskan lives.

Representative Kelly stated his support for the program.

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Co-Chair Meyer referred to the fiscal notes.

Representative Joule asked if an aircraft equipped with avionics would be easier to locate if it had an accident. Mr. Richards answered that it would be.

Vice-Chair Stoltze MOVED to REPORT SB 249 out of Committee with individual recommendations and with the accompanying fiscal notes.

Vice-Chair Stoltze OBJECTED for discussion.

Vice-Chair Stoltze reported that airplane accidents have killed more of his friends than car accidents. He referred to accidents that had happened. Many Alaskans shared those experiences. He thought the program was a priority.

Vice-Chair Stoltze REMOVED his OBJECTION. There being NO further OBJECTION, it was so ordered.

SB 249 was REPORTED out of Committee with a "do pass" recommendation and with attached new zero fiscal note by the Department of Transportation and Public Facilities and fiscal note #1 by the Department of Commerce, Community and Economic Development.

HOUSE BILL NO. 396

An Act relating to and increasing the amount of the 2008 permanent fund dividend; and providing for an effective date.

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Vice-Chair Stoltze moved to adopt the Work Draft for HB 396, version 25-LS1504\C, Cook, 3/21/08 (Copy on File). There being NO OBJECTION, it was so ordered.

Co-Chair Meyer reminded the Committee that the bill was heard first on 3/19/08, and public testimony had been taken and closed.

Representative Bill Thomas, Sponsor, explained that the CS changed the funding source from the Permanent Fund Earnings Reserve to the General Fund. Co-Chair Meyer asked if it was his intent to use FY 08 money. Representative Thomas responded in the affirmative.

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Representative Gara was concerned about spending \$305 million in a year without enough money for other important programs. He asked if the Sponsor had considered making the \$500 payment just to adults if the concern was energy. Representative Thomas looked at the oil wealth as owned by everyone and thought each Alaskan should be entitled to it. He wanted to find a way to share it equally.

Co-Chair Meyer pointing out that using the same distribution as the Permanent Fund Dividend (PFD) would mean less overhead than if other factors such as age or income were part of an application process.

Representative Gara stated his strong support of the PFD, but he did not consider the amount a reasonable amount of money. He wanted to get the money to people who need it and not everyone.

Vice-Chair Stoltze pointed out that the payment has been called an "energy dividend" by the press and asked the Sponsor if it was his intent to have people use the money for whatever they needed. Representative Thomas answered that he came up with the idea in response to high energy costs. He wanted a way to offset those costs, especially in rural Alaska. He called it an "energy rebate." Representative Gara agreed that most people in rural areas needed the money because of energy cost increases.

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Representative Kelly queried as to the predicted amount of the dividend.

JERRY BURNETT, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF REVENUE, said there would not be an exact prediction for the amount until September. He calculated that the distribution would be a little over \$1.2 billion, so the dividend would be approximately \$2,000. The dividend for the previous year had been \$1,654.

Representative Kelly asked why the money in HB 396 was coming from the General Fund.

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Representative Thomas explained it was clearer to take it from the surplus in the General Fund than from Permanent Fund. Co-Chair Meyer added there was no need to use the Permanent Fund earnings with the surplus. He said the surplus has come at the expense of constituents, who are suffering because of high oil prices. He agreed with the Sponsor about sharing some of the surplus through a rebate. Vice-Chair Stoltze favored using the General Fund because he wanted to protect the Permanent Fund.

Representative Gara disagreed with some of the numbers being used about the amount of the surplus.

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Mr. Burnett said the Department of Revenue uses a different financial forecast than the Legislature uses. Co-Chair Chenault thought the legislative numbers were dependable.

Representative Gara wondered how many people not living in Alaska full time would benefit from the rebate. Mr. Burnett explained that the rebate would follow the same guidelines for distribution as the PFD. Only the military and members of congress and their staff are allowed to be out of state full time and receive the check. People in retirement communities would have to be in the state at least 180 days of the year and he assumed they would spend money while in Alaska. Representative Gara pointed out that people in retirement communities tend to leave during the winter, when energy costs are highest.

Co-Chair Meyer stated that he himself needed help on his fuel costs. He thought a secondary benefit of the bill would be to put dollars into a slow economy.

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DEBBIE RICHTER, DIRECTOR, PERMANENT FUND DIVIDEND DIVISION, DEPARTMENT OF REVENUE, spoke to the number of people who live outside of Alaska. Last year there were about 10,000 people who received the dividend who were not physically in Alaska at the time the dividend checks were issued. Most of those were military and their families.

Representative Crawford felt that it would be political suicide to even speak against the bill, but he stressed the large amount of money would be better used in energy projects in the places where people are hurting the worst. He wanted to get people off diesel and developing alternative energy, not hand out checks. He thought it would

be a huge mistake and set up the expectation in future years for the same check.

Co-Chair Meyer agreed that there was a real need to find alternative energy to reduce the cost of fuel, especially in rural Alaska. However, that takes time. The energy rebate would help buy a little time for people.

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Representative Thomas resented the fact that anyone would think he was sponsoring the bill to get votes. He felt he was responding to human need in his district. He referred to a bill on renewable energy and he thought that should get more support.

Vice-Chair Stoltze characterized legislators as trustees of the people's money and thought the debate about how to spend the surplus money was worthwhile.

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Representative Gara suggested that one way to address the energy issue was through the low income energy assistance program. Representative Nelson had asked for \$8 million to match the federal money. He had been told that a substantial part of Alaska's wind energy needs could be met for \$120 million. He was concerned that the renewable energy fund would be underfunded and able to support only small energy projects that could not match the great need. He would rather put the large amount of money the bill would spend into renewable energy.

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Representative Crawford apologized to Representative Thomas.

Representative Joule asked how the allocation proposed in the bill would affect federal earmarks. Representative Thomas worried that federal money was already waning. Co-Chair Meyer did not know the effect on future federal earmarks. He said the PFD has raised concern at the federal level.

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Representative Gara reiterated his desire to not give extra money to the rich. He noted that the Committee agrees on the core point, that working class and rural Alaskans are facing high energy costs and need help. He thought those Alaskans should receive the money.

Representative Thomas MOVED to ADOPT Amendment #1 (25-LS1504\C.1, Cook, 3/25/08) (Copy On File):

Page 1, following line 13:

Insert a new subsection to read:

"(c) A program administered by the state or any of its instrumentalities or municipalities, the eligibility for which is based on financial need, may not consider a payment under this section as income or resources."

Vice-Chair Stoltze OBJECTED.

Representative Thomas explained that the Amendment would make sure the rebate would not impact social programs by raising people's income level. Vice-Chair Stoltze asked if the fiscal note reflected that. Representative Thomas said it did. Representative Joule wondered how the increase would impact the State at the federal level.

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ALLIE FITZJARRALD, ACTING DIRECTOR, DIVISION OF PUBLIC ASSISTANCE, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, explained that some of the federal programs give the State broad discretion in setting eligibility rules and others do not. The Amendment would state intent that the rebate not be counted in determining eligibility for public assistance or other needs-based programs. She said it was similar to the Permanent Fund hold harmless statute.

Representative Joule asked if that meant there would be no impact for the State-run programs. Ms. Fitzjarrald answered that the Amendment would mean that.

Representative Hawker referred to the over-riding hold harmless provision already in place and asked if the Amendment could actually negate that by adding duplicate language.

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Ms. Fitzjarrald clarified that the rebate was General Fund money and no longer Permanent Fund.

Vice-Chair Stoltze wondered if the rebate could be garnished for delinquent child support payments. Mr. Burnett answered that the money would be subject to garnishment especially now that it is not Permanent Fund money.

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Representative Gara wanted examples of federal benefit programs where the rebate would count as income. Ms. Fitzjarrald responded that the federal programs allow some State discretion in setting the eligibility rules. The State

would need either statutory or regulatory authority to determine whether income is counted. She did not know of a federal program that would mandate counting the rebate as income if the Amendment passed. The one exception is a Social Security program for people with disabilities. However, since the check comes at the same time as the PFD, there would be no net effect to that program.

Representative Gara asked about Medicaid. Ms. Fitzjarrald explained that the Department has an option to exclude the rebate as income.

Representative Crawford queried whether incarcerated people would receive the rebate. Mr. Burnett replied that as currently written the eligibility for the PFD and the rebate would be the same, so incarcerated individuals who meet the standards would not receive the rebate. The calculation for the PFD felon funds is a separate issue and will remain a concern.

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Vice-Chair Stoltze asked about the fiscal note. Ms. Fitzjarrald answered that the Amendment would change the fiscal note to zero. Mr. Burnett added if it was zero it would not matter. Everyone's dividend would get larger.

Co-Chair Chenault wondered if another fiscal note would be coming since the bill was changed to General Fund. Ms. Fitzjarrald said she was not aware of fiscal notes from other departments.

Vice-Chair Stoltze REMOVED his OBJECTION.

Representative Kelly OBJECTED. He stated that he has difficulty with exclusion overall. He thought the welfare system was already fine-tuned and did not want to add this on.

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Mr. Burnett said the Amendment would have no affect on child support or similar kinds of garnishment. Representative Kelly thought it was tampering with the public assistant system.

A roll call vote was taken on the motion.

IN FAVOR: Stoltze, Thomas, Crawford, Gara, Hawker, Joule, Meyer, Chenault
OPPOSED: Kelly

Absent from the vote: Harris, Nelson

The MOTION PASSED (8/1).

Representative Gara MOVED to ADOPT Amendment #2 (25-LS1504\A.1, Cook, 3/20/08) (Copy On File):

Page 1, line 1, following "dividend":

Insert "for certain individuals with limited incomes"

Page 1, line 6:

Delete "INCREASE IN AMOUNT OF 2008 PERMANENT FUND DIVIDEND"

Insert "2008 PERMANENT FUND DIVIDEND AMOUNT FOR CERTAIN INDIVIDUALS"

Page 1, line 7, following "residents":

Insert "with limited incomes"

Page 1, line 8, following "increased":

Insert "for individuals eligible under (b) of this section"

Page 1, line 10, following "dividend":

Insert "for those individuals"

Page 1, following line 10:

Insert a new subsection to read:

"(b) An individual who is eligible for the 2008 permanent fund dividend, is a member of a household with a gross monthly income that did not exceed 300 percent of the federal poverty guidelines for this state for January through May of 2008, and who files an application for the increase, is eligible for the increase in the 2008 dividend under (a) of this section. Notwithstanding permanent fund dividend application procedures or deadlines, an individual may apply for the increase on or before September 30, 2008. The Department of Revenue shall prepare a form for applications under this section. The form must include notice of the penalties provided under AS 11.56.205 and AS 43.23.035."

Reletter the following subsection accordingly.

Vice-Chair Stoltze and Representative Hawker OBJECTED.

Representative Gara explained there is precedence for using federal income guidelines to determine benefits. He said the Amendment proposes making the rebate available to people who make three times the federal poverty guideline. For a single person, that would be someone who makes \$39,000 or less. For a family for two that would \$52,500 or less. His intent is to avoid the expenditure of a third of a million dollars for checks for people who do not need the money.

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Mr. Burnett pointed out the administrative hurdles the Amendment would create, including sending a second application form and extending the Dividend out to September 30. He said the Department does not have people trained on income verification and does not have a system set up to process dividends of different amounts. He anticipated it would cost hundreds of thousands of dollars. He guessed that half the people in Alaska would qualify under the Amendment. There is no state program to verify income.

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Co-Chair Meyer wanted to avoid overhead costs.

Vice-Chair Stoltze questioned the term "limited income." Representative Gara said that term could be changed.

Co-Chair Chenault asked what the number was for a family of four. Vice-Chair Stoltze answered that it was \$79,300.

Representative Crawford thought the overhead costs would be saved in the money not being put out in checks. He stated grave qualms about setting a program in place that it would be difficult to pay in years to come. He did not think it would remain a one-time program. He wanted the investment to be made into infrastructure.

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Representative Thomas stated he did not support the Amendment and that it entirely changed his intent with the bill.

Representative Gara stated that he had not heard an explanation why the state should cut a check to a family that makes more than \$80,000. The main argument he heard pertained to administrative costs. Even if half of Alaskans qualified for the \$500 check, the Amendment would save the state \$150 million by setting up the administrative structure. He thought that was a good investment. He listed ways \$150 million could be spent, including extensive education programs.

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Representative Hawker MAINTAINED his OBJECTION.

Co-Chair Chenault stated that he did not support the Amendment. He thought many people who needed the money

were too proud to ask for help. He thought the resources should be shared equally.

A roll call vote was taken on the motion.

IN FAVOR: Crawford, Gara

OPPOSED: Thomas, Hawker, Joule, Kelly, Stoltze, Chenault, Meyer

Absent from the vote: Harris, Nelson

The MOTION FAILED (2/7).

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Representative Kelly worried about the rebate being an entitlement that people would continue to expect. He referred to the \$300 million attempt to address the fuel shortage through the weatherization and grant program, and \$1.25 billion reduction in value through the pipeline. The PFD is being increased around 20%. He stated he did not support the bill although he respected Representative Thomas's motives and understood the need.

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Representative Gara agreed with Representative Kelly. He reiterated his concerns.

Representative Joule said he would have preferred the rebate come out of the Permanent Fund earnings. He said he would support the bill but he wanted to see an open discussion about capping the Permanent Fund so the leftover earnings could be used for the costs of government.

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Representative Hawker stated that the bill would ultimately create more problems for the fiscal process than it solved. He said he would vote against the bill and he urged others to do the same.

Representative Thomas accepted the will of the Committee.

Co-Chair Meyer noted that the bill had generated healthy discussion and hoped it would move to the floor to encourage similar discussion. He wanted to determine how to help suffering people and thought the bill had merit.

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Vice-Chair Stoltze MOVED to REPORT CS HB 396 (FIN) out of Committee with individual recommendations and with the accompanying fiscal notes. Representative Hawker OBJECTED.

Representative Gara said he would vote against the bill and explained that he wanted to see relief go to people that need it. He believed in making society better for people who need help and in creating opportunity for people who do not have opportunity. Government should not do more than that.

Representative Crawford noted that he could not vote for the bill. He acknowledged the good parts to the bill.

Representative Joule wanted to save money for tough times ahead but did not want Alaska to save itself into the poorhouse. He wanted infrastructure taken care of.

AT EASE: [3:30:31 PM](#)

RECONVENE: [3:31:23 PM](#)

Vice-Chair Stoltze withdrew the motion to move the bill from Committee at the request of the Sponsor.

HB 396 was HEARD and HELD in Committee for further consideration.

[3:33:22 PM](#)

ADJOURNMENT

The meeting was adjourned at 3:33 P.M.