

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

February 23, 2012

9:02 a.m.

MEMBERS PRESENT

Senator Bill Wielechowski, Chair
Senator Joe Paskvan, Vice Chair
Senator Albert Kookesh
Senator Kevin Meyer
Senator Cathy Giessel

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 178

"An Act relating to the Alaska operating endowment fund; and providing for an effective date."

- HEARD & HELD

SENATE CONCURRENT RESOLUTION NO. 22

Establishing and relating to the Alaska Arctic Policy Commission.

- HEARD & HELD

SENATE CONCURRENT RESOLUTION NO. 19

Proclaiming September 24, 2012, to be United States Marshals Day.

- MOVED SCR 19 OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: SB 178

SHORT TITLE: ALASKA OPERATING ENDOWMENT FUND

SPONSOR(S): FINANCE

01/27/12	(S)	READ THE FIRST TIME - REFERRALS
01/27/12	(S)	STA, FIN
02/23/12	(S)	STA AT 9:00 AM FAHRENKAMP 203

BILL: SCR 22

SHORT TITLE: ALASKA ARCTIC POLICY COMMISSION

SPONSOR(s): FINANCE BY REQUEST OF AK NORTHERN WATERS TASK FORCE

02/06/12 (S) READ THE FIRST TIME - REFERRALS
02/06/12 (S) STA, FIN
02/23/12 (S) STA AT 9:00 AM FAHRENKAMP 203

BILL: SCR 19

SHORT TITLE: PROCLAIMING UNITED STATES MARSHALS DAY

SPONSOR(s): DYSON

01/18/12 (S) READ THE FIRST TIME - REFERRALS
01/18/12 (S) STA
02/23/12 (S) STA AT 9:00 AM FAHRENKAMP 203

WITNESS REGISTER

SENATOR BERT STEDMAN
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced SB 178 as co-chairman of the Senate Finance Standing Committee, sponsor of the bill.

ANGELA RODELL, Deputy Commissioner
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Addressed the fiscal note for SB 178.

WESTON EILER, Staff
Senator Burt Stedman
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented SCR 22 on behalf of the Senate Finance Standing Committee.

SENATOR FRED DYSON
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of SCR 19.

CHUCK KOPP, Staff
Senator Fred Dyson
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified on SCR 19 on behalf of the sponsor.

ACTION NARRATIVE

[9:02:37 AM](#)

CHAIR BILL WIELECHOWSKI called the Senate State Affairs Standing Committee meeting to order at 9:02 a.m. Present at the call to order were Senators Giessel, Meyer, and Chair Wielechowski. Senators Kookesh and Paskvan arrived shortly thereafter.

SB 178-ALASKA OPERATING ENDOWMENT FUND

[9:03:58 AM](#)

CHAIR WIELECHOWSKI announced that the first bill before the committee was SB 178, which would create an Alaska Operating Endowment Fund as a depository for the state's savings to generate revenue for the benefit of future generations of Alaskans.

SENATOR BERT STEDMAN, as co-chairman of the Senate Finance Committee, sponsor of SB 178, introduced the bill. He said that currently, Alaska has amassed excess billions of dollars in liquidity outside of the Permanent Fund and has a unique opportunity to create a fund source for future operations of the state. Previous discussions, even five years ago, were about when the legislature would withdraw funds from the Permanent Fund for the operations of the state. He explained that the bill would set aside \$15 billion and allow a revenue stream of 4.5 percent to go into the general fund, if needed. In the future if funds are needed, the legislature would have flexibility to meet the needs of the state. The bill would also block future legislators from taking billions out of savings and would force future legislators to make tough decisions to reduce expenditures. He summarized that the bill would permanently protect the dividend stream of the Alaska Permanent Fund, help guide future legislators in protecting the vast quantity of Alaska's assets, and leave flexibility for future legislators to appropriated funds, when needed, where they are needed.

[9:08:44 AM](#)

SENATOR STEDMAN addressed the Department of Revenue fiscal note, which he said is large, but the legislature is already managing those large amounts. He concluded by saying that it was time to have this conversation in the legislature.

SENATOR GIESEL referred to a chart in the members' packets. She noted that point five on the chart says that future returns are based on 2011 Callan capital market assumptions and median

expected returns. She questioned whether the Callan earnings assumptions were high at 7.5 percent.

SENATOR STEDMAN explained that the basic allocation was 60 percent equities and 40 percent bonds. The forward expectations from Callan in the financial markets have been lowered for the next decade. By capping expenditures at 4.5 percent, anything above that would be re-invested. Over time, on average, the investment should be inflation proofed. Callan's concern is that bond market yields have been so suppressed that when interest rates rise, the bond market will have great losses. He said 4.5 percent payout was the starting discussion point and might be on the low side.

SENATOR MEYER said he liked the concept of the bill and it reminded him of the Percent of Market Value (POMV) bill in 2004. He asked what oil price is being used in calculations for the FY 2012 and FY 2013 budgets. He did not know if tying up all savings would be prudent if the price of oil drops. He wondered if the state should try to reduce its debt first.

[9:15:29 AM](#)

SENATOR STEDMAN said the initial payout can be modified. There is concern with break-even oil price and oil production. He countered that the bill would force budget discipline. There is more than \$15 billion in cash which is open for discussion and could be adjusted as the legislature sees fit. He maintained that starting out with \$15 billion would protect most of the state's savings, but would provide the ability to build savings outside of the endowment to help with the operating budget.

SENATOR STEDMAN maintained that the retirement system debt obligations would have to be a separate discussion. There has to be a balance. All large issues would be put on the table at the same time and decisions made on how to deal with them.

SENATOR MEYER agreed that it does force fiscal responsibility. He asked what oil price was used to determine the budget.

SENATOR STEDMAN said \$109 per barrel was used for the projected revenue stream. He said he would have to check on the break even oil price, which he thought was around \$80 per barrel. It would be beneficial to the state to have a lower break even oil price.

SENATOR WIELECHOWSKI asked how secure the fund would be. He wondered if in a year the legislature could modify the size of the appropriation.

SENATOR STEDMAN stated that the fund would be in statute and could be changed by future legislation. It could also become a Constitutional Budget Amendment similar to the Permanent Fund. He opined it would be a better policy discussion in the form of a statute.

[9:20:47 AM](#)

SENATOR WIELECHOWSKI asked if it the bill is a dedicated fund and if there could be a legal challenge about binding future legislatures.

SENATOR STEDMAN replied that he had not sought a legal opinion; however, it is not a dedicated fund because it draws from general funds.

ANGELA RODELL, Deputy Commissioner, Department of Revenue, addressed the fiscal note for SB 178, which has an appropriation request for \$3,150,000. She related that most of the money is already being spent by other funds. She pointed out that the asset allocation contemplated by the bill would require more external management because more of the monies would be moved into an equity position and then moved into a more active external management position.

SENATOR MEYER summarized that the statutory reserve account would go for a year or two with losses and then hope for gains in the future. He asked if the debt ratio was good.

MS. RODELL said it was very good.

[9:24:17 AM](#)

SENATOR PASKVAN suggested using an "institutional prudent investor fund" method. He commented on an article about true risk over time where the real risk is in bonds, rather than equities. He suggested concentrating more in equities.

SENATOR WIELECHOWSKI asked if the administration has a position on the bill.

MS. RODELL said not at this time.

SENATOR WIELECHOWSKI understood that the money in the fiscal note is currently being spent elsewhere.

MS. RODELL said that was correct.

SENATOR WIELECHOWSKI asked if any analysis was done to determine whether the fund was a dedicated fund.

MS. RODELL said no.

SENATOR WIELECHOWSKI set SB 178 aside.

SCR 22-ALASKA ARCTIC POLICY COMMISSION

[9:27:12 AM](#)

SENATOR WIELECHOWSKI announced the consideration of SCR 22, which would establish an Alaska Arctic Policy Commission to help create a state Arctic policy and address the many issues raised by a changing Arctic landscape.

WESTON EILER, staff, Senator Burt Stedman, presented SCR 22 on behalf of the Senate Finance Committee. He read from the following sponsor statement:

Senate Concurrent Resolution (SCR) 22 establishes the Alaska Arctic Policy Commission within the legislative branch. Over the course of two years, the 16-member commission will engage state government, communities, and stakeholders on northern waters and Arctic issues. SCR 22 continues the legislature's work to establish an official Arctic policy for the State of Alaska, and address a diverse set of issues facing the state with changes in the Arctic.

In January of 2012, the Alaskan Northern Waters Task Force (ANWTF) presented its findings to the legislature. The Task Force identified opportunities and challenges in a changing Arctic, and made recommendations in six policy areas: Governance, Oil and Gas Development, Marine Transportation, Fisheries, Infrastructure, and Research. The ANWTF Report is the most detailed assessment of Arctic issues by the legislature to date, but more work is needed to fully assess the multitude of issues brought forward by the Task Force and craft an official Arctic policy for Alaska. Most Northern nations and territories already have established Arctic policies to help address changes and development in the Arctic region.

Alaska has an enormous stake in the Arctic and needs to adopt a strategic and targeted Arctic policy. Advancing Alaska's interest in the Arctic will require

sustained efforts by state government. This resolution is a targeted next step to continue the legislature's work in this area and help position Alaska at the forefront of our nation's Arctic policy.

SENATOR GIESSEL thought the bill was a great idea. She referred to page 3, line 14, item (G), and asked what "an association of a local government" means.

MR. EILER explained that wording was included to allow for flexibility for unorganized boroughs. All members would be appointed jointly by the Speaker of the House and the Senate President.

SENATOR GIESSEL questioned line 17, (I), the wording "one member representing an international Arctic organization."

MR. EILER replied that the bill would allow for a representative from one of the international stakeholder groups.

SENATOR WIELECHOWSKI set SCR 22 aside.

SCR 19-PROCLAIMING UNITED STATES MARSHALS DAY

[9:32:40 AM](#)

SENATOR WIELECHOWSKI stated that the next item before the committee was SCR 19, which would proclaim September 24, 2012, as United States Marshal's Day.

SENATOR FRED DYSON, sponsor of SCR 19, introduced the resolution. He related that in 1789 the federal government created the U.S. Marshal Service. After the Alaska Purchase, the Marshals were given the job of law enforcement in Alaska. This year is the 128th year of U.S. Marshal presence in Alaska. The resolution would provide for a one-time-only U.S. Marshal's Day to let people know about their contributions. Eight Marshals have died in service to Alaska. U.S. Marshals work closely with other Alaska law enforcement agencies.

CHUCK KOPP, staff to Senator Dyson, noted the significance of the date. On September 24, 1789, Congress appointed the U.S. Marshall Service.

[9:35:25 AM](#)

SENATOR WIELECHOWSKI asked for a motion to move SCR 19, version M, from committee.

SENATOR PASKVAN moved to report SCR 19 from committee with individual recommendations and the attached zero fiscal note.

SENATOR WIELECHOWSKI announced that without objection, SCR 19 was reported from the Senate State Affairs Standing Committee.

9:36:55 AM

There being no further business to come before the committee, Chair Wielechowski adjourned the Senate State Affairs Standing Committee at 9:36 a.m.