

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

March 15, 2012

9:04 a.m.

MEMBERS PRESENT

Senator Bill Wielechowski, Chair
Senator Kevin Meyer
Senator Cathy Giessel

MEMBERS ABSENT

Senator Joe Paskvan, Vice Chair
Senator Albert Kookesh

COMMITTEE CALENDAR

SENATE BILL NO. 178

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

- MOVED CSSB 178(STA) OUT OF COMMITTEE

SENATE BILL NO. 117

"An Act relating to the allowable absence for active duty service members of the armed forces for purposes of permanent fund dividend eligibility."

- SCHEDULED BUT NOT HEARD

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
02/23/12	(S)	Heard & Held
02/23/12	(S)	MINUTE(STA)
03/15/12	(S)	STA AT 9:00 AM BUTROVICH 205

WITNESS REGISTER

DARWIN PETERSON, Staff

Senator Bert Stedman
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions related to SB 178 on behalf of Senator Stedman, Co-Chair of the Senate Finance Committee, sponsor of SB 178.

ACTION NARRATIVE

[9:04:48 AM](#)

CHAIR BILL WIELECHOWSKI called the Senate State Affairs Standing Committee meeting to order at 9:04 a.m. Present at the call to order were Senators Giessel, Meyer, and Chair Wielechowski. Senators Paskvan and Kookesh were excused from the meeting.

SB 178-ALASKA OPERATING ENDOWMENT FUND

[9:05:30 AM](#)

CHAIR WIELECHOWSKI announced that SB 178 was before the committee. He related that SB 178 creates the Alaska Operating Endowment Fund and is sponsored by the Senate Finance Committee and presented by Senator Bert Stedman. He said that the goal of the legislation is laudable. It recognizes the strong commitment to savings the legislature has demonstrated in recent years. The state has set aside roughly \$15 billion in savings, giving Alaska the largest savings account of any state in the nation. Every Alaskan should be proud of that accomplishment, and we in the legislature should be vigilant in ensuring that our savings are safeguarded well into the future. He thanked Senator Stedman for introducing the bill and for his commitment to ensuring Alaska's financial health for generations to come.

CHAIR WIELECHOWSKI said he had several concerns about the bill. The sponsor statement indicates that "it is the intent of the Senate Finance Committee that approximately \$15 billion will be used to capitalize the fund." This number was calculated by combining the current balance of the Constitutional Budget Reserve (CBR), the Statutory Budget Reserve, and the estimated FY 12 revenue surplus. The CBR was created by the voters in 1990 to deal with the problem of short-term fluctuations in oil revenue. The constitutional amendment passed by Alaskans required the state to deposit all settlements from oil and gas tax and royalty disputes into the fund. More importantly, it specified that withdrawals from the fund be authorized with a three-quarter vote of each house of the legislature and must be repaid. The voters clearly wanted Alaska's nest egg to be protected and protected well.

CHAIR WIELECHOWSKI voiced concern that SB 178 would not accomplish that important public goal. It would allow future legislatures to withdraw money from the fund with a simple majority vote and would not require that those funds be repaid. He said he did not think that was the sponsor's intent. He suggested the sponsor would be open to the idea of creating an endowment with the level of protection afforded to funds currently in the CBR.

CHAIR WIELECHOWSKI continued to say that SB 178 does not require the balance of the CBR be transferred into the proposed Alaska Operating Endowment Fund. The bill simply creates a structure and proposes a concept. It begins a discussion that the legislature should have about how to protect Alaska's savings, yet use them to fund essential government operations when annual revenues are insufficient for that purpose. For that reason, he said he has proposed two small changes in the new committee substitute.

SENATOR MEYER moved to adopt the CS for SB 178, labeled 27-LS1255\M, as the working document.

CHAIR WIELECHOWSKI objected for discussion purposes.

CHAIR WIELECHOWSKI addressed the changes in the bill. On page 2, line 8, "four and one-half percent" was replaced with "four" percent. This was done after reviewing literature about endowments and the recent performance of several state accounts. Also, on page 2, line 12, ", or any other amount," was deleted when describing the amount the legislature may annually appropriate from the fund.

CHAIR WIELECHOWSKI noted that nationally inflation has averaged 3.43 percent since the federal government began tracking consumer prices in 1913. He said he wanted to begin the discussion today with a reduced annual allowable pay-out from the proposed fund. He stated that he also wanted to eliminate the legislature's opportunity to exceed a responsible annual payout by removing the loophole in the original bill which allowed the legislature to withdraw as much as it wanted from the fund in any given year. He said he understood the language was included in the bill to protect against any assertion that the legislature was binding the hands of a future legislature. He noted he had been advised by legislative attorneys that there may be other ways to guard against that potential.

At ease from 9:10 to 9:14.

9:14:28 AM

CHAIR WIELECHOWSKI requested comments from the sponsor regarding the changes in the bill.

9:14:59 AM

DARWIN PETERSON, staff, Senator Bert Stedman, Co-Chair of the Senate Finance Committee, sponsor of SB 178, commented on the changes to the bill. He stated that Senator Stedman has no problems with version M of the bill. He related that Senator Stedman respects the protections that are in the constitution for the CBR and would agree to similar protections in the endowment fund. He concluded that version M is a starting point to continue the discussion of the fund in the Senate Finance Committee.

CHAIR WIELECHOWSKI appreciated the sponsor's leadership in this area.

MR. PETERSON thanked the chair.

CHAIR WIELECHOWSKI noted the bill has an additional referral to the Senate Finance Committee. He said he hopes that if an Operating Endowment Fund comes into existence and includes funds from the CBR, it will be done through a constitutional amendment. That way the fund would be protected and it would go to a vote of all Alaskans.

CHAIR WIELECHOWSKI pointed out that the bill has a fiscal note of \$3.1 million, based on the assumption that \$15 billion would be moved into the fund.

9:17:21 AM

SENATOR MEYER moved to report the CS for SB 178, version M, from committee with individual recommendations and the attached fiscal note. There being no objection, CSSB 178(STA) was reported from the Senate State Affairs Standing Committee.

9:17:50 AM

There being no further business to come before the committee, Chair Wielechowski adjourned the Senate State Affairs Standing Committee at 9:17 a.m.