

HOUSE FINANCE COMMITTEE
February 16, 2016
1:33 p.m.

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CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative David Guttenberg
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Representative Charisse Millett, Sponsor; Senator Lesil McGuire, Sponsor; Jesse Logan, Staff, Senator Lesil McGuire.

SUMMARY

HB 303 PERM FUND: EARNINGS, DEPOSITS, ACCOUNTS

HB 303 was HEARD and HELD in committee for further consideration.

Co-Chair Thompson discussed the meeting agenda.

#hb303

HOUSE BILL NO. 303

"An Act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska permanent fund, and the earnings reserve account; relating to the mental health trust fund; relating to deposits into the dividend fund; and providing for an effective date."

REPRESENTATIVE CHARISSE MILLETT, SPONSOR, shared her viewpoints regarding the concept of the bill. She related that the companion bill was SB 114 (Perm Fund: Earnings, Deposits, Accounts) introduced by Senator Lesil McGuire. She pointed to Representative Mike Hawker's point of market value legislation [HB 224 State Planning & Budget; Perm Fund; PFD], Governor Walker's Sovereign Wealth Fund discussion and fiscal plan legislation and her and Senator McGuire's legislation, all dealing with restructuring the Permanent Fund Dividend (PFD) and declared that each concept had merit. She felt that the ideas were worthy and important discussions for Alaskans. She acknowledged that conversations concerning the Permanent Fund were sensitive. She commended Governor Walker for introducing the Sovereign Wealth Fund concept and for starting the dialogue. She offered that the companion Senate bill introduced by Senator Lesil McGuire contained innovative ideas and confronted the fact that the state's budget was predicted on the price of oil and the projected pipeline flow rate. The bill viewed Alaska's resources in a much different way. She understood that the bill may not be the one chosen through the legislative process but maintained that the legislation furthered the dialogue and contributed to the process. She believed that the PFD provided Alaskans the opportunity to participate in the owner state and they came to rely on their portion of the natural resource wealth as part of their income. Consequently, the concept was not an easy conversation to engage in. She shared that she thought "a lot about what the solution would look like." She reasoned that at some point, all of the ideas would make sense to the legislature and worried more that no plan would be adopted. Her fear of doing nothing was greater than her fear of engaging in a conversation regarding restructuring the Permanent Fund. She had taken a tempered and measured approach to all three plans introduced on the topic in the current session.

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Representative Millett reiterated that the PFD concept was a difficult conversation, but she believed the legislature was on the path to "righting the ship." She spoke to the great opportunity in Alaska and her desire for continued prosperity for future generations. She believed the dialogue was appropriate given the gravity of the current financial situation facing the state. She stated that doing nothing would be incredibly dangerous and thanked the committee for the opportunity to address the bill.

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SENATOR LESIL MCGUIRE, SPONSOR, commended Representative Millett for her leadership on the bill. She shared her thoughts regarding the House of Representatives. She spoke to the risk of putting the legislation forward due to the sensitivity of the topic. She stressed that discussing a different approach for use of the Permanent Fund brought forth significant emotional responses from Alaskans. She spoke to the importance of working on the issue of how the state managed its budget. She related her past experience as a new legislator and her surprise that the "entire state budget" was so dependent on the oil commodity and the direct correlation between the price of oil, amount of throughput and the size of the budget. She learned that other lawmakers had considered the budget dependency on oil and put forth similar bills that were considered in the past. She presented a PowerPoint presentation titled: Reducing the Deficit: Investing Alaska's Vast Cash Reserves."

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Senator McGuire addressed slide 2 of the legislation:

The Permanent Fund and the Dividend

- November 1976-Voter Approved Constitutional Amendment Creating the Permanent Fund
- 2/21/1977-9th Legislature Created Permanent Fund thru CS to SS to HJR 39
- -to convert a part of the depleting petroleum asset into a permanent and sustainable financial asset- (Goldsmith, 2002)
- Zobel v. Williams (Argued: 10/7/1981, Decided: 6/14/1982) US Supreme Court

HELD: The Alaska Dividend distribution plan violates the guarantees of the Equal Protection Clause of the 14th Amendment

- 1982 The first Permanent Fund Dividend
Created by a statutory overlay on the constitution (signed into law 4/16/1980)

Senator McGuire expounded that approximately \$50 billion was currently in the Permanent Fund and no provision in HB 303 removed the constitutional protection of the fund's corpus. She mentioned thoughts around why the legislature created the Earnings Reserve Account (ERA). She voiced that the intent was to deliver dividends to certain Alaskans. The goal had been to reward long-term, pioneering Alaskans so they would become more intimately connected with the value of the fund and share in the value of its subsurface rights. Subsequent to the Supreme Court decision, every citizen of Alaska was subject to a minimal residency requirement of two years or more in order to receive a PFD.

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Senator McGuire addressed slide 3:

Is there a Problem?

A \$3.5 - \$4 billion deficit

- The legislature has enacted heavy spending cuts over the last 2 years
- The state has several savings accounts, but
- We cannot wait and hope for high oil prices
- The price of inaction now could be disastrous for the state's future

Senator McGuire believed that "it was important to manifestly change the volatility of the state's dependence on oil and structurally reflect that in statutory changes to the Permanent Fund." She stated that contrary to popular opinion the legislature recently enacted heavy budget cuts of almost \$1 billion that impacted important programs. The cuts facing the state during the current session were much more serious and would affect individual Alaskans in all areas of public services. She stressed that state savings would be gone in two years.

Senator McGuire turned to a graph titled "Alaska's Fiscal Situation This Year (FY 16)" on slide 4. She appreciated the simplicity the slide brought to a complex issue. The blue bar depicted the state's total expenditure level of \$5.2 billion. The black bar represented the state's revenue of \$1.062 billion. She referred to the state's \$3.6 billion from savings shown in the red as necessary to help pay for expenditures. She moved to slide 5:

"The Five Stages of Grief":

- Denial
- Anger
- Bargaining
- Depression
- Acceptance

Senator McGuire relayed personal experience with the stages. She discussed the experience of each of the stages as a legislator in relation to the state's fiscal crisis. She highlighted slides 7 and 8 both titled "Status Quo" in relation to the cost of inaction. On slide 7 the graph depicted a large fiscal deficit extended out into the future without taking action and voiced that doing nothing was "dangerous." She addressed slide 8 and cautioned that without adopting any of the proposed fiscal plans, the graph depicted the end of the dividend program in FY 22 under the status quo. She pointed to the delineation of FY 19, FY 20, and FY 21 and communicated that in those fiscal years the state would spend down the Constitutional Budget Reserve (CBR) and other funds and arrived at the point where only the PFD ERA was left. The legislature would have to choose between funding government and paying a dividend.

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Representative Wilson contended that every presentation she attended on the fiscal crisis based information on "doing nothing." She offered that the plan of action needed to be determined and that the legislature was aware of the situation. Senator McGuire agreed with the statement. She believed that the issue may have gotten lost in the news cycle. She noted that the House was taking the historic step to only focus on the budget issue. She was attempting to provide a baseline for comparison about where the state would be if nothing was done. She pointed out that some

people still believed that it was possible to receive a dividend and not make a structural change and wanted to relay the opposite message to the public.

Representative Edgmon pointed to slide 5. He shared that he had also been using the same talking points in his office. He believed most legislators vacillated between depression and acceptance; whereas, constituents vacillated between denial and anger. He felt that legislators were tasked with "bridging the gap" and help constituents understand the issue. He applauded the sponsors for coming forward with the legislation.

Representative Gara believed that Senator McGuire's views on doing nothing were "fair." He stated that if the state did not also raise revenues the deficit would not be solved. He stressed that it was necessary to consider every option. He understood the frustrations regarding the publics' lack of knowledge of the \$1 billion in budget cuts that were already enacted and felt that action was imperative.

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Senator McGuire turned to slide 9 also titled "Status Quo." She relayed that she would begin using the term "status quo" as opposed to "doing nothing," which she felt was "vernacularly charged." She pointed to the bar chart showing the CBR and General Fund (GF) revenues in blue and the ERA in green, both equaled about \$7 billion each. She explained that both of the funds were available for spending by the legislature without a constitutional vote. The CBR required a three-quarters vote and the ERA required a simple majority vote. If the status quo continued, by FY 18 the CBR would be drained and the legislature arrived at the point of deciding whether to issue a PFD or fund government.

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Senator McGuire addressed slide 10:

A Path Forward

We need a plan to address the problem.

In crafting this plan I had these principles in mind:

The solution needed to:

1. Retain a dividend
2. Reduce the volatility in the state budget
3. To clearly expose the size and cost of government
-so that downward pressure would ensure that Alaskans could begin an honest assessment of needs vs. wants
4. Be enduring to allow maximum use of our wealth over generations so that benefits and burdens are shared
5. Be Simple and Easy to implement

Senator McGuire announced that the bill was completely created by her and her staff, with assistance from economists, reviews of previous similar legislation, the Legislative Finance Division (LFD), and specifically David Teal, Director, LFD. She stressed that "no outside group that is not elected created this plan." She spoke of the various elements she focused on when formulating the fiscal plan. She felt that it was imperative that a plan retained a dividend and her bill offered the only plan that guaranteed a \$1,000 dividend. She believed it was important to retain the dividend because the program was created by the ninth Alaskan legislature to "hand out dividend checks to share the wealth of our subsurface rights that are non-renewable resources with Alaskans..." and to connect the public to the Permanent Fund and its value. In addition, she remarked on the economic disparity between rural and urban Alaska and noted that the "dividend had been factored in as people's income," which affected people's livelihood. She related personal experience regarding receiving her first permanent fund dividend check and her family's decision to save the checks for each sibling's future. She shared her father's feelings about the creation of the PFD. He believed the decision to pay dividends was the worst thing that had ever happened to the state because of the dependency it would create. However, she strongly believed the dividend program must be maintained.

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Senator McGuire continued to address slide 10. She declared that a plan had to address reducing the volatility in the state's budget. She delineated that commodities by its nature were volatile and value was created through "perception" and that oil cartels like Oil Producing and Exporting Countries (OPEC) played a role in driving the price of oil. She stated that planning a state's budget

based on a commodity price was a "terrible way" to balance a budget. She revealed that the bill was not a complete solution; it dealt with one part of the state's largest asset but did not define the adequate size of government. She believed that point 4 on the slide was the most important of all of her stated principles. She reasoned that in order to keep building the state and preserve wealth over generations the ERA should be taken off the table and shared into the future instead of being spent. She warned that if the legislature did not adopt the legislation or something similar the principle in item 4 was not attainable. She shared that she voted for a POMV bill as part of a bipartisan coalition in the House in 2004, which the Senate failed to adopt and that if adopted, the state would be financially stable today and the PFD would have been relatively unaffected. She read the quote on the slide by Albert Einstein, "If I had one hour to solve a problem, I would spend 55 minutes thinking about the problem and 5 minutes thinking about the solution."

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Representative Kawasaki thanked the sponsors for presenting the bill. He addressed Senator McGuire's comment that no one else was responsible for the legislation. He referenced a talking points memo on SB 114 distributed by Ben Sparks on behalf of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) president Vince Beltrami and General Communications Incorporated (GCI) President Ron Duncan and wondered why it was available [in the backup packet for SB 114 - available on BASIS]. Senator McGuire explained that she had introduced the legislation the past April prior to interim to allow a dialogue to develop around SB 114. During the interim the Governor assembled a 35 member panel of Alaskans to address the fiscal crisis. She was contacted by Mr. Duncan last August and relayed that he had been a constituent years ago. After finding her bill in a packet of fiscal options distributed by the governor, Mr. Duncan requested meeting with the Senator and offered his assistance. She weighed whether to enlist his help launching a public relations campaign promoting the legislation. She could not remember a single major issue in Alaska that was not decided without private sector groups weighing in. She thought it would be helpful to hear from a diverse group of Alaskans and suggested picking a politically neutral woman to lead a group. She continued that in the meantime, GCI and AFL-CIO formed a

group to promote the idea of solving the deficit and examined all of the fiscal plans.

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Senator McGuire continued that the talking points were widely distributed by the group as part of their educational campaign and she was not associated in its authorship. She was not sure how the document received its title listing the specific names. She suggested that many private entities typically weighed in and wanted to influence the dialogue on legislation. She emphasized that "the bill was home grown." She welcomed that the group promoted dialogue and disseminated information about SB 114 and the other fiscal plan bills.

Representative Kawasaki thought that the title created perception that SB 114 and HB 303 was their bill. He understood that many lobbyists were being hired regarding the issue. He wanted the public to understand that his vote would not be influenced by a lobbyist.

Representative Millett declared that a bill that she sponsored or supported "rose to the top" on the merits of the bill and she wanted to have her statement on the record. She restated that she sponsored HB 303 solely on the bill's merit.

Senator McGuire shared that her staffer Jesse Logan worked arduously with her on the bill and was a resource for any legislator with questions.

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Representative Gattis voiced that she remained undecided, but she appreciated the conversation. She thought that "everything should be on the table." She looked forward to hearing more about the bill.

Vice-Chair Saddler appreciated the passion and the solution Senator McGuire was offering and for placing the issue in "context." He requested more details about the legislation.

Senator McGuire briefly mentioned slide 11:

What HB303 IS NOT

It is NOT

- A Raid on the Permanent Fund
The Permanent Fund cannot be touched without a constitutional amendment
HB 303 would only draw funds from the Earnings Reserve Account
- A way for Government to increase the Budget
- A Dividend Killer

Senator McGuire briefly addressed slide 12:

What HB303 IS

It IS

- A way to connect Alaskans directly to their share of the Natural Resources
- A way to protect your dividend into the future
- Without a structural change, the dividend will go away in a few short years
- A way to ensure that services you enjoy continue to be provided
- Police (public Safety)
- Firefighters
- Roads
- Education
- Health and Human Services
- The Marine Highway
- Parks and Recreation
- Fish and Game management

Senator McGuire voiced that the slide emphasized that every Alaskan depended on government in some way. She highlighted slide 13 titled "Impacts of Selected Options for Reducing the Deficit by \$100 million Job Loss" authored by Gunnar Knapp, Director, University of Alaska Anchorage's Institute of Social and Economic Research (ISER) for the publication, Alaska Business Monthly 2016. She summarized that the graph depicted that every job had a value associated with it and job loss impacted the economy.

Vice-Chair Saddler pointed to slide 13 and endorsed the information on the graph as the best metric to measure the impacts from the various deficit reducing options and encouraged everyone to read the article.

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Senator McGuire agreed with Vice-Chair Saddler. She skipped slide 14. She underlined slide 15:

HB 303 Spending Limitations? Volatility in Commodity Prices

- The Legislature could consider some of the following to reduce volatility:

- o Language that says "FY(x) appropriation cannot exceed 110% or 120% of previous years draw" - can pick a number.
- o POMV could be a range of % depending on returns, oil tax revenue, cash flow needs, capital project outlays, etc...
- o i.e.-POMV could equal 2%-8% to fill the budget deficit, "whichever is less"

- Can create an overall spending cap

Senator McGuire related that she welcomed ideas and amendments regarding a spending limit and felt one was necessary.

Senator McGuire moved to slide 16:

A \$3.5-4Billion Deficit-volatility in Commodity Prices

We have seen this before for decades
Oil Price x Volume = State Budget

This has been Volatile and Unstable

We have been saved in the past by rebounding oil prices

What is different today is:

We no longer have the volume
(oil would need to be over \$108bbl to balance the budget)

Einstein said "We cannot solve our problems with the same level of thinking that created them."

Senator McGuire skipped slide 17. She turned to slide 18 that depicted 2 graphs that were a mixture of a variety of graphs that illustrated the actual price of oil and the

forecasted price of oil for West Texas Intermediary (WTI) and Brent oil prices. She reported that the graphs demonstrated that predictions were "always wrong" and the difficulty in forecasting commodity prices.

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Senator McGuire briefly moved to slide 19 which portrayed another graph showing the actual price of crude oil provided by the United States Energy Information Administration (USEIA).

Co-Chair Neuman asked what the oil price the bill was predicated on was. Senator McGuire replied that the price of oil was an "amalgamation" of approximately \$30 per barrel. She stated that she could consider a model based on \$50 per barrel. She explained that there was a "probabilistic" method and an "actualistic" method to employ in the calculation and she chose the actualistic way. A model of the plan developed by a private group made calculations based on different variables. Co-Chair Neuman asked what numbers the presentation was based on.

JESSE LOGAN, STAFF, SENATOR LESIL MCGUIRE, replied that the models in the slide deck were produced by LFD based on Department of Revenue (DOR), Revenue Source book data.

Co-Chair Neuman asked whether the DOR data was \$50 per barrel. Senator McGuire deferred to Mr. Logan. She clarified that when she began modeling for the bill the price of oil slid from \$52 to \$30. She added that the governor employed a probabilistic model and she chose to use the actual based on the Revenue Source book.

Mr. Logan expounded that the governor's model employed the probabilistic economic model that provided a range of probable outcomes and a variable percentage on the likelihood of the outcome happening. He stated that the bill employed the "deterministic" model used by LFD for budgeting purposes. Ultimately, the numbers in the model presented at the end of the slide deck were derived from the Revenue Source Book. Co-Chair Neuman wanted to know what value for the price was used because the price was directly connected to the evaluation of the "effects of the budget deficit" employed in the bill's model. Senator McGuire stated that the model had been a "moving conversation" and when in comparison to other fiscal plan

legislation a similar price should be used to get "the full impact" of each plan.

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Senator McGuire skipped slide 20. She addressed slide 21:

A \$3.5-4Billion Deficit

- Oil Price Projections have been inaccurate
- Is the International Oil Market fundamentally different now?
 - Perhaps
- Should we bet on oil prices to save us in the future?
 - A better question:
 - Should we bet our future on oil prices?

Senator McGuire skipped slide 22. She turned to slide 23 which contained a graph depicting, "Historical and Projected End-of-Year Balances of State Reserve Funds - (excluding Permanent Fund)." She detailed that in 2008 and 2009 the price of oil was up to \$147 per barrel under Alaska's Clear and Equitable Share (ACES). The cream colors on top of the blue bars depicted deposits into the Statutory Budget Reserve Fund (SBR). She pointed out that the state had saved money but in 2015 began spending CBR funds. She pointed to slide 24 titled "How We Are Spending \$5.2 billion in FY 16." The chart depicted spending by department and she noted that the two largest budgets belonged to the Department of Health and Social Services (DHSS) and Department of Education and Early Development (DEED). She voiced that even if the legislature cut every single government job and service provided by both departments there would still be a deficit. She examined slide 25 titled "Potential New Revenue From Sustainable Alaska Plan." She reported that the graph's numbers were based on the governor's probabilistic model and on his tax rates which showed generating \$457 million in revenue and a remaining deficit of \$3.6 billion. She ascertained from the slide that revenue generating devices did not generate enough revenue to close the deficit, which was why Permanent Fund restructuring was necessary.

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Senator McGuire addressed slide 26:

We cannot close the gap with cuts or new broad-based revenue ALONE.

A sound fiscal solution will necessarily involve using the Permanent Fund.

Senator McGuire briefly addressed the graph on slide 27 titled "FY 16 Agency Share of Total Agency Operations and the Appropriation for Permanent Fund Dividends." She indicated that the single largest budget item was paying out the PFD dividends from the ERA. She pointed out that the fund was inflation proofed by approximately \$1 billion and the total for FY 16 was \$2.4 billion. She addressed slide 28 which compared HB 303 with the governor's bill. Slide 28:

SB 128 (APFPA) vs HB 303 Key Elements

- Royalties go to Dividend under both plans
 - PFPA = 50% of Royalties (~\$1,000 dividend and falling)
 - HB303= 74.5% of Royalties (nearly 50% Higher Dividend)
- \$1,000 minimum
- PFPA plan moves CBR and Oil tax revenue into Earnings Reserve Account
 - There are possible legal issues regarding the CBR sweep
- PFPA plan is NOT a POMV
 - Targets a set number (\$3.3B) for withdrawal and spending
 - This is telling the legislature you have "x" amount to spend every year
- Does not adjust to market returns and actual earning of the ERA
- HB303 does not change oil tax revenue (still straight to GF)
- AFPA is designed as an annuity-looks 25 years into the future: Foresight
- POMV is based on actual values-Looks 5 years into the past: Hindsight

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Senator McGuire delineated that the governor's plan set a dollar amount target based on 25 years into the future of

actuarial evidence. She emphasized that a POMV plan was based on actual values, which she strongly favored. She commented that POMV was a tested method of managing a corpus of money allowing a certain amount of earnings to spin off as usable funds and kept the corpus viable into the future. She moved to slide 30 titled "Current Cash Flow" which she considered the "plumbing" of the plan. She addressed the current cash flow chart on slide 30. She explained that .05 percent of the royalties went to a Public School Trust Fund, roughly 30 percent were deposited into the Permanent Fund Principal and approximately 69.5 percent was moved into the GF. She noted the representation of the CBR that was outside of the GF and used in deficit spending needed a three-quarter vote to access the funds. She identified slide 31 titled "HB 303 Change 1. Royalty Percentage." She revealed that the legislation proposed changing the royalty percentages. She referenced slide 32 titled "HB 303 Change 2. Add POMV Payout." She elaborated that 25 percent was deposited into the Permanent Fund principal and 74.5 percent was deposited into the GF and 5 percent of the total was deposited into the GF. She skipped slide 33. She moved to slide 34 titled "HB 303 Change 4. Dividend Source and Calculation." She elucidated that the 25 percent deposit into the Permanent Fund principal was permanent and designed to grow the fund. However the bill included a new way to pay out the dividend. She offered that currently the ERA payed out dividend checks. HB 303 created a new dividend fund utilizing 75 percent of the royalty stream. The earnings from the principal of the Permanent Fund were distributed into the ERA and 5 percent of the POMV draw was deposited into the GF. The GF remained the same. She emphasized that the "major shift" was the creation of a new dividend fund using 75 percent of the prior year's royalties to pay the dividend.

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Senator McGuire reviewed slide 35:

HB 303: The SWAP-Rents and Royalties

- Currently,
 - 30% of all Royalties and Rents from
 - Oil, Gas and Federal Mining revenue
 - Deposited into the Permanent Fund corpus
 - 0.5% to School Trust Fund
 - 69.5% deposited to General Fund

Senator McGuire indicated that the only way to maintain a healthy Permanent Fund corpus was by inflation proofing the fund. She relayed that Angela Rodell, Executive Director, Alaska Permanent Fund Corporation reported that over the life of the fund the legislature "injected an additional \$16 billion to inflation proof the corpus of the fund." She announced that the yearly budget line item of between \$703 million to \$1 billion to inflation proof the fund was "in effect, a direct injection of new capital into the corpus." She noted that roughly 80 percent of all of the funds' assets self-inflation proof.

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Co-Chair Thompson turned the gavel over to Vice-Chair Saddler.

Representative Gara pointed to slide 34. He spoke to the ERA. He stated that the current ERA balance was approximately \$7 billion and wondered how the POMV approach would work in a "sub-par year." He stated that a \$2.5 billion yearly withdrawal may or may not deplete the earnings reserve. He wondered about the chances of "bad market returns" emptying out the reserve making the \$2.5 billion unavailable for spending. Senator McGuire replied that the bill was a conversation starter and the mechanisms could be altered. She encouraged the committee to invite Angela Rodell, to speak to the issue before the committee due to her fact based historical perspective. She answered that the 5 percent POMV draw could be changed in a number of ways. She elucidated that changes could be a different exact percentage or range of percentages. She highlighted one possibility that was a POMV of 5 percent over the past 5 years. She stated the approach was more stable. Another option was to hold an election to open up the principal. She relayed that Director Rodell offered the suggestion so in a bad year money would be withdrawn from the principal. She offered that in an underperforming year under the bill funds were drawn from the CBR. She warned that if the legislature waited two years to act the CBR would be empty and only the ERA funds remained, which left "a much more narrow set of circumstances" to operate under. She pointed to revenue generation or oil tax credit adjustments as options. She agreed that the 5 percent POMV was an average that may recoup \$3 or \$4 billion in high years and \$1.2 billion in low years and that considering outcomes and the "full construct" was necessary. She recommended the POMV of

5 percent over the past 5 years as a relatively stable approach.

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Representative Pruitt appreciated the Senator's presentation. He relayed Commissioner Hoffbeck's, Randall Hoffbeck, Commissioner, Department of Revenue (DOR) comments regarding the difficulty to maintain the \$1,000 dividend under her plan. He asked for the Senator's thoughts. Senator McGuire responded that she had spoken with Commissioner Hoffbeck. She mentioned that the governor's plan was entirely different. The governor's approach embraced a variety of measures under a high degree of certainty to fill the budget deficit. His plan needed the formula to equal roughly \$2.5 billion and addressed volatility by decreasing or not paying out a dividend in favor of a guaranteed amount for government spending. She explained that her bill proposed to change the fundamental structure of the fund to provide "more stability." She reiterated that government jobs had value and government services had value and eliminating volatility signaled stability to the "tight nexus... between the public and private sectors." She believed that was the reason for the interest from the private sector groups in adoption of a fiscal plan. She discussed the policy decision HB 303 induced regarding using money from savings to guarantee a \$1,000 dividend.

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Representative Kawasaki asked how structurally sound the plan would be going forward especially in the 5 year average scenario. He stated that in 9 out of 30 years the earnings reserve yields were negative. Senator McGuire responded that she would provide a slide to the committee that contained the data on the ERA percentages and the yields over the years and agreed with Representative Kawasaki regarding the variable returns for the ERA. She explained that "some volatility was contained in a POMV approach." She thought the plan was still "light years ahead" when compared to current budgeting. She did not know the exact amount the POMV returns would generate. She reiterated that it would be helpful to have Ms. Rodell offer a factual perspective regarding the Permanent Fund. She recommended discussions involving all of the possible options.

Mr. Logan added that when averaging the last five years of ERA returns the real draw was roughly 3.87 to 4.81 percent depending on the range of volatility and with targeted returns at 6.9 percent and real returns at 5 percent the actual draw was less than what the ERA was earning. He agreed with Representative Kawasaki's point. Representative Kawasaki remarked that 2010 netted poor returns for the ERA and the state was barely able to pay out dividend checks.

Senator McGuire returned to slide 23 and pointed out that in 2010 because oil had been so high, under ACES the state was doing quite well and had put \$1.2 billion in its statutory savings account. She felt that it was "so disconnected there were absurdities in both ways."

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Representative Kawasaki clarified that the targeted draw from the ERA was between \$2.7 billion and \$4.1 billion. Senator McGuire answered in the affirmative. Representative Kawasaki relayed that the governor's bill proposed a statutory draw and he believed some people may favor the more stable approach. He thought the draw proposed in HB 303 was more volatile and wondered why the governor's approach was "not a better way to go." Senator McGuire replied that the governor's plan had a different philosophical approach. She declared that she "was happy with the solution" [in HB 303]. However, she did not believe she was more right than anyone else. If through the deliberative process, the legislature decided the annuity based direct payment model was the best option, she would support it. She furthered that her goal was to address the largest singular budget issue, which she felt was the PF. She agreed that the POMV was a little more volatile but thought that it offered much more budget stability. The approach was recognized over decades of review and use globally, and maintained a structure that was defined and upheld in state statute. She discussed the possible legal contests with restructuring established state accounts. She reiterated that she favored the POMV approach and liked the idea of creating a dividend directly from royalties to connect Alaskans to its resource. She shared her discomfort with some elements of the governor's plan.

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Vice-Chair Saddler appreciated the overall context the sponsors had provided. He observed that the plan did not incorporate an allowance for capital projects. He noted the POMV model included inflation proofing and a 25 percent deposit from royalties into the corpus of the Permanent Fund. He asked whether the proposal "over inflation proofed the model." Senator McGuire responded that the constitution mandated a minimum of 25 percent of the royalties. She contended that the state had been over inflation proofing the fund. She believed that the amount acted as a safeguard in lean years and did not feel growing the corpus was over inflation proofing. Vice-Chair Saddler stated that currently permanent fund dividends were predicated on the stock market. He asked what effect attaching dividends to royalties would have on the psyche of Alaskans. Senator McGuire replied that she had skipped over a couple of slides on the topic due to the meeting's timeframe. She believed great things would happen. She elaborated that whatever side of the debate a person was on regarding a repeal of SB 21 (Oil And Gas Production Tax) [CHAPTER 10 SLA 13 - Enacted 05/21/2013], she discovered that most people did not understand that oil was the single source of revenue for state spending. She voiced that Alaska was a resource based state and that restructuring would connect the public to the resource and spark more education and involvement in the process. She felt that more public awareness of the relationship between the federal and state government would also occur.

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Representative Gara understood that at the price of approximately \$42 per barrel the Permanent Fund was automatically inflation proofed. He requested more testimony regarding inflation proofing the fund.

Vice-Chair Saddler stated that he questioned whether long-term inflation proofing was the most important issue facing the state. Senator McGuire stated that the conversation regarding HB 303 "pulled together all types of conversations for the public to hear." She related to both sides of the argument. She reiterated some facts regarding inflation proofing the fund. She referred to slide 27 that included the depiction of the permanent fund deposit as a budget item, which was the largest budget item. She thought that over inflation proofing was "a very real question."

Representative Millett stated that the meeting's conversation solidified her view that changes were necessary. She acknowledged that the fiscal gap was not remedied through cuts and revenue generation alone. She agreed that the public was not aware of the amount the budget was already cut and of how much was saved over the years. She voiced that the discussion would be long and arduous and she was open to new ideas.

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Representative Gara asked whether statutory change was required for altering the way the fund was inflation proofed. Senator McGuire answered that "enough law makers believed that a statutory change" was necessary because of the continued deposit into the fund each year. She reminded the committee that former Representative Rokeburg attempted to change inflation proofing in 2005. She believed statutory change was necessary. She encouraged members to maintain statutory oversight of the fund. She opposed the idea of a constitutional vote.

Representative Gara noted that he did not suggest "not inflation proofing the fund."

Vice-Chair Saddler discussed the schedule for the following day.

#

ADJOURNMENT

[3:32:51 PM](#)

The meeting was adjourned at 3:32 p.m.