

SENATE FINANCE COMMITTEE
March 22, 2016
9:00 a.m.

[9:00:40 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:00 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Peter Micciche, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Senator Lesil McGuire, Sponsor; Jesse Logan, Staff to Senator Lesil McGuire.

SUMMARY

SB 114 PERM FUND: EARNINGS, DEPOSITS, ACCOUNTS

SB 114 was HEARD and HELD in committee for further consideration.

#sb114

SENATE BILL NO. 114

"An Act relating to deposits into the dividend fund; and relating to the Alaska permanent fund."

[9:01:33 AM](#)

AT EASE

9:03:33 AM
RECONVENED

SENATOR LESIL MCGUIRE, SPONSOR, introduced herself.

9:04:31 AM

Senator McGuire discussed the presentation, "Reducing the Deficit: Investing Alaska's Vast Cash Reserves" (copy on file).

9:04:43 AM

Senator McGuire looked at Slide 2, "Is there Fiscal Problem? We have a \$3.5 to \$4 Billion Deficit":

The legislature has enacted heavy spending cuts over the last 2 years

The state has several savings accounts, but revenue models show that if oil prices do not rebound, those savings will be gone in about 2 years

We cannot wait and hope for high oil prices

The price of inaction now could be disastrous for the state's future

9:05:15 AM

Senator McGuire addressed Slide 3, "Alaska's Fiscal Situation This Year (FY 16)." She felt that the chart was simple to understand. She noted that the states output was in blue and the amount of revenue coming in was detailed in red, green, and black. She said that nearly \$4 dollars of every \$5 spent would come from savings.

9:05:52 AM

Senator McGuire highlighted Slide 4, "The Cost of Doing Nothing/Status Quo":

The longer we wait to act

- The lower are our reserves
- The higher the risk of failure

A lower reserve balance

- Simply takes away choices we have to fill the deficit

Senator McGuire highlighted that the state's budget reserves would be drained by FY 18, leaving only the earnings reserve account which could be accessed only through constitutional mechanisms.

[9:06:39 AM](#)

Senator McGuire discussed Slide 5, "The Cost of Doing Nothing/Status Quo":

In FY 19 The choice will be made to fund Dividend OR Deficit.

The slide offered a graph depicting that by FY 19, savings would pay dividends but would not cover the fiscal gap, and that the dividend program would end entirely by FY 22.

Senator McGuire felt that there should be a change in the way that this dividend is distributed. She stressed that the slide was the most important slide, because, without the legislation, the permanent fund dividend (PFD) would eventually cease to exist.

[9:08:40 AM](#)

Senator McGuire looked at Slide 6, "A Path Forward":

In crafting SB 114 I had these principles in mind:

The solution needed to:

- 1) Retain a dividend
 - a) Without making the dividend dependent on the size of state spending
- 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

[9:10:58 AM](#)

Senator McGuire highlighted Slide 7, "The Five Stages of Grief":

- Denial
- Anger
- Bargaining
- Depression
- Acceptance

Senator McGuire believed that the stages of grief applied to Alaska's fiscal gap.

[9:11:46 AM](#)

Senator McGuire looked at Slide 8, "Other Options?":

3 Proposals have been introduced to the Legislature

- SB128 -Annuity Model
- SB114 -5 percent POMV
- HB224 -4.5 percent POMV

All Use the Permanent Fund Earnings

What else could we do?

-Constitutional Amendment to access the Corpus of the Permanent Fund?

-Requires vote on next General Election

-New Taxes?

Continue with Strategic Cuts to the budget
But we cannot cut our way out of this

[9:12:34 AM](#)

Senator McGuire discussed Slide 9, "Potential New Revenue From Sustainable Alaska Plan." She stated that if every revenue measure contained in the Governor's Sustainable Alaska Plan were to be adopted, the yearly revenue of \$457 million would not close the fiscal gap.

Senator McGuire looked at Slide 10, "FY 16 Agency Share of Total Agency Operations and the Appropriation for Permanent Fund Dividends":

If you consider the PF Dividend as spending - it is our single largest budget item (even without inflation proofing)

Senator McGuire noted that the number reached \$2.4 billion after inflation proofing. She felt that it was important that Alaskans know that the dividend program was the biggest cost driver in the budget.

[9:13:43 AM](#)

Senator McGuire discussed Slide 12, "Current Cash Flow." The slide illustrated the current cash flow of the Permanent Fund into the General Fund. The slide reflected that draws from the CBR would be made as necessary to fill deficits. She noted that the Permanent Fund held approximately \$52 billion and was the state's largest asset. She shared that the ERA had been created in 1980, by the 12th Alaska State Legislature, and had done nothing more than pay out dividends to Alaska residents.

[9:14:59 AM](#)

Senator McGuire highlighted Slide 13, "Proposed SB 114 Cash Flow":

Changes

- 1) Royalties to PF equal 25 percent (the only inflation proofing requirement contained in the Constitution)
- 2) 4.5 percent POMV from ERA to GF
- 3) Dividend Calculation:
 - 1) 15 percent of Royalties
 - 2) 15 percent of ERA funds (from ERA)
 - 3) 2 percent of CBR (from ERA)

Senator McGuire pointed out that the \$.5 percent POMV was the most important aspect of the bill that related to budget stabilization. She relayed that the CBR would remain the same and would be available to drawn on when necessary to fill deficits, and only through the three-fourths vote of the Legislature. She explained that the original bill had the dividend coming exclusively from 74.5 percent of all of the future rents and royalties of sub-surface earnings, and believed that offered the simplicity of connecting future dividend recipients to the source of the revenue and would grow the economy.

[9:19:48 AM](#)

Senator McGuire discussed Slide 14, "The Overall Effect":

Reduces the Deficit by \$2 Billion

Reduces volatility in budget

- Grows the Permanent Fund
 - Maintains buying power of the corpus of the fund
- Preserves the Dividend
 - With a minimum of \$1,000
- Reduces the CBR draw to cover deficit
- Helps maintain good state credit rating
- Maintains downward pressure on state Spending

[9:22:08 AM](#)

Senator McGuire addressed Slide 15, "SB 114 Dividend":

Historical PF Dividends

34 Dividends have been paid
18 Have been \$1,000 or less
16 Have been greater than \$1,000

Senator McGuire reiterated that the status quo's fiscal end would come in FY22.

[9:23:03 AM](#)

Senator McGuire highlighted Slide 16, "The Size of the Dividend":

SB 114 has a minimum \$1,000 dividend

Status quo Dividend program WILL END

Senator McGuire believed that the committee would need to address the issue in FY 19 because the CBR will be exhausted and the legislature will be forced to go into the ERA. She said that she usually used a billion dollar placeholder for revenue in her charts, but based on the price of oil the billion dollar revenue was no longer guaranteed. She lamented that the state would have less money to work with than had been expected because of low oil prices.

[9:24:57 AM](#)

Vice-Chair Micciche noted that all of the modeling assumed a similar price of oil to the current price of oil.

Senator McGuire remarked that each of the bill sponsors had shared their modeling and basic assumptions with each other.

Senator McGuire discussed Slides 17, "The Reserves SB 114 vs. Status Quo." She announced that the chart comparison helped the public to understand the differences between the bill and the status quo.

Senator McGuire addressed Slide 18, "The Reserves SB 114/ Status Quo."

[9:26:47 AM](#)

Senator McGuire highlighted slide 19, "POMV and Inflation Proofing", and shared that the bill provided leveling, so the bond ratings could stabilize. She asserted that the red line on the right hand chart could not be brought down without major structural changes.

Senator McGuire addressed Slide 19, "POMV and Inflation Proofing":

- Callan's Est. Return on Permanent Fund Investments equals 6.9 percent
- POMV Draw equals 4.5 percent

- To the Earnings Reserve Account equals 2.4 percent

plus

- To the Corpus of the Permanent Fund equals 25 percent of Royalties

Total Royalties \$690M multiplied by 25 percent equals \$172 million

The Bill also allows inflation proofing to the Principle if the ERA is 4 times the size of the POMV Draw

[9:27:37 AM](#)

Senator McGuire looked at Slide 20, "Review oversight":

Each year on or before January 30

The commissioner of revenue may consult with the Permanent Fund board and recommend

- Adjustments to the percentages of money appropriated to the dividend

Each year on or before January 30

The commissioner of revenue shall provide a legislative report that:

- Evaluates the sufficiency of the assets in the ERA
- Evaluates the amount projected to be distributed to the General Fund

[9:28:39 AM](#)

Senator McGuire addressed Slide 21, "Revenue Limitations From POMV Draw":

For Oil revenue over \$1B there is a corresponding reduction of the POMV draw

This improves the sustainability of payouts from the ERA

Reduces the risk of increasing spending in high years of petroleum revenue

Reduces the volatility in the budgeting process for UGF expenditures

Senator McGuire relayed that the original version of SB 114, as introduced in April of 2015, purposefully left out a method of constraining growth of the size of government in hopes that the legislature could weigh in on the issue. She said that the original bill contained a simpler revenue limitation that said that the amount of appropriation for government spending could not exceed 110 percent of the previous appropriation. She explained that the change in the current version of the bill generated from the Senate State Affairs Committee. She said that the chairman of that committee had preferred the mechanism, which was currently being extensively modeled. She related that the principal of the amendment was that there would be a corresponding reduction in the POMV draw for oil revenue over a billion dollars. She elaborated that the mechanism would improve sustainability of payouts from the ERA, reduce the risk of increasing spending in high years of petroleum revenue, and would reduce the volatility of the budget process. She asserted that the POMV model was superior to the annuity plan, but without a constraint on spending it could become more volatile. She felt that in order for the public to maintain faith in the legislature to bridge the fiscal gap they needed assurances that the dividend was protected.

[9:31:56 AM](#)

Senator McGuire discussed Slide 22, "What SB 114 is and is not":

SB 114 is NOT

- A raid on the Permanent Fund
 - SB114 would only draw from the Earnings Reserve Account
- A way for Government to increase spending
- A dividend Killer

SB 114 IS

- A way to share the risks and rewards of the states fiscal health

- A way to protect the dividend into the future
- A way to ensure that services we enjoy continue to be provided
 - Police
 - Firefighters
 - Roads
 - Education
 - Health and Social Services
 - The Marine Highway
 - Parks and Recreation
 - Fish and Game Management

Senator McGuire assured the committee that there was no Constitutional change in the bill intended to invade the corpus of the Permanent Fund. She strongly believed that the bill was the only way to preserve dividends into the future.

[9:33:24 AM](#)

Senator McGuire highlighted Slide 23, "Major Policy Calls":

POMV vs. Sovereign Wealth Model

Revenue Limitation

Percentage of POMV Draw

Dividend Calculation

CBR Investment

She stated that the biggest question was whether the legislature would decide to restructure the Permanent Fund based on POMV, or use a Sovereign Wealth Model (SEM). She explained that a POMV approach would require the establishment of a revenue limitation, the SWM guaranteed the size and cost of government, and a specific draw. She said that the original percentage of POMV draw was 5 percent, but was currently 4.5 percent; David Teal, Director, Legislative Finance Division preferred 4.9 percent. She stated that the state currently used a percentage of the ERA, a percentage of royalties, and a percentage of the CBR to payout dividends; the committee had the power to reconfigure that calculation. She thought that it would be beneficial to explore how the CBR could be invested in order to benefit the economy.

[9:35:12 AM](#)

Senator McGuire discussed Slide 24, "Major Policy Calls":

POMV vs. Sovereign Wealth Model

POMV is a 5 year look back (hindsight)
SWM is a 25 year look forward (foresight)

Which is better?

Senator McGuire reiterated that the fact that POMV models worked had been documented numerous times. She added that the SWM required foresight into the next 25 years.

Senator McGuire addressed Slide 25, "Major Policy Calls":
Revenue Limitation

Dramatically reduces volatility in the budget, however current language does not limit revenue when Oil Revenue exceeds \$3.5 Billion. Should it?

[9:36:21 AM](#)

Senator McGuire looked at Slide 26, "Major Policy Calls":

The Percentage of POMV draw is sustainable around 5 percent-total draw from ERA

Questions we must ask ourselves:

- Will this percentage include a portion for the Dividend?

- The current bill excludes the 15 percent SNI of the ERA and the 2 percent from CBR from the 4.5 percent POMV Draw

- 4.5 percent POMV + 15 percent SNI + 2 percent CBR is probably closer to 5.2 percent total draw

- Is this Sustainable?

[9:36:37 AM](#)

Senator McGuire highlighted Slide 27, "Major Policy Calls":

Dividend Calculation

- Current bill holds the 2016 Dividend harmless (status quo)
 - This will cost the state \$750M vs. implanting a new calculation this year
- Current bill guarantee's a \$1,000 Dividend minimum
 - This protects Alaskans on the low side, but the state pays out
 - This must be drawn from savings and will not be paid back when dividends increase

[9:38:18 AM](#)

Senator McGuire discussed Slide 28, "Major Policy Calls":
Dividend Calculation

Consideration

- The current bill draws a 4.5 percent POMV from the ERA
 - Then bases the dividend, in part, on 15 percent of a 5yr avg. SNI
 - These two things are counter to each other POMV vs. SNI payouts
 - This introduces Volatility to the POMV over time
 - Could consider a Flat dividend amount, or
 - Better, a formula that
 - Uses a percentage of Royalties and
 - And percentage of the POMV
- This could spread the risk and reward between residents and the state

[9:40:26 AM](#)

Senator McGuire addressed Slide 29, "Major Policy Calls":
CBR Investment

Consideration

- AS 37.10.430
 - (a) DOR may transfer management of the fund to the APFC
 - (c) The subaccount in the CBR can be invested for higher returns IF

- The Commissioner of Revenue does not expect them to be needed for the next 5 years.

- A sustainable POMV draw reduces the drain on the CBR

- Some of it could be invested long for a higher yield

[9:41:33 AM](#)

Co-Chair MacKinnon asked when the senator had first introduced legislation on the topic of restructuring the Permanent Fund.

Senator McGuire replied that she first introduced the legislation in April 2015. She clarified that GCI, unions, and corporations had not been behind the genesis of the bill. She offered a brief history of the crafting of the original legislation.

[9:43:14 AM](#)

Co-Chair MacKinnon stressed that Senator McGuire had begun to develop a solution long before most other people. She commended the work that the senator had done on the issue.

[9:43:56 AM](#)

Senator Dunleavy wondered whether the legislation needed to catch up with changes in the Department of Revenue's spring forecast.

Co-Chair MacKinnon interjected that there was \$300 million in foregone revenue in the new forecast, and \$600 million for FY 18.

[9:44:28 AM](#)

Senator McGuire replied that the general dollar figures would have to reflect the spring forecast, but roughly speaking the presentation had been changed to materially reflect the three major changes that came from the Senate State Affairs Committee. She publicly thanked staff that had help to craft the legislation.

[9:46:20 AM](#)

Co-Chair MacKinnon pointed out to Senator Dunleavy that the charts in the presentation would show less optimistic numbers after being adjusted to reflect the spring forecast.

[9:46:58 AM](#)

JESSE LOGAN, STAFF TO SENATOR LESIL MCGUIRE, added that the models in the bar graphs in the presentation were modeled at \$50 bbl, and that time limitations had not allowed the numbers to be adjusted in time for today's meeting. He said, however, that the fundamental relationships remained the same. He agreed that language changes would need to be made in the bill, there were several places where drafting errors had been found, and some mechanics would need to be tweaked.

[9:47:49 AM](#)

Senator Hoffman looked at Slide 13, and expressed concern that the percentages distributed out of royalties added up to 101 percent. He felt that mistakes of the kind could be costly in the big picture.

[9:48:49 AM](#)

Co-Chair MacKinnon stressed the importance of using accurate numbers on public presentations.

Mr. Logan clarified that the percentage going to the general fund should be 59.5.

[9:49:04 AM](#)

Senator Olson queried the approximate amount of the 4.5 percent of the POMV that would be going to the General Fund.

Senator McGuire said that the figure would be based on the forecasting. She said that it was originally modeled at 2.25 billion, now it would be reduced to reflect the \$300 million drop.

[9:49:53 AM](#)

Senator Olson wondered how much deficit would remain in the state budget if the bill were to pass.

Senator McGuire replied that the remainder would be a moving target because there was no way to know what state revenue would be.

[9:51:30 AM](#)

Co-Chair MacKinnon surmised that the bill would generate \$1 billion that would offset any deficit that might remain.

Senator McGuire thought it was closer to \$2 billion.

[9:52:10 AM](#)

Vice-Chair Micciche looked at Slide 18. He understood that the blue part of the bar graph on the left represented the remaining fiscal gap. He thought that the graph reflected a relatively sustainable budget.

Senator McGuire replied in the affirmative.

[9:53:07 AM](#)

Senator Bishop wondered whether the changes proposed by Senator Coghill would make the dividend more of a shareholder dividend.

Senator McGuire responded that she believed that was conceptually the case, but for taxation purposes the legislative legal opinion stated that the dividend would still be taxable by the federal government. She thought that the purely royalty dividend payout from the original bill would have been a pure share, and could not be taxed by the federal government. She said that Alaskans would receive a share of the non-renewable resource in the ground on an annual basis.

[9:55:03 AM](#)

Senator Olson looked at Slide 13. He assumed that as the CBR dropped, the amount of the dividend would decrease. He asked whether there was a backup plan if the dividend dropped below \$1000.

Senator McGuire replied that the ERA would be used to pay out dividends. The hope was the 2 percent of CBR could be sustained. She said that whether the CBR should be kept would be a policy call for the committee.

[9:57:09 AM](#)

Vice-Chair Micciche commented that, provided the legislature continued to apply downward pressure to the Operating Budget, the state was likely within 10 years of a fully sustainable draw without additional taxes. He thought that use of the CBR should be discussed further.

[9:57:57 AM](#)

Senator Bishop stressed that the model depended on a healthy mining and oil industry in order to produce dividends. He remarked that there should be an examination of possible production in 2030.

[9:58:47 AM](#)

Senator Dunleavy queried the reasoning of giving .5 percent to the Public School Trust Fund.

Senator McGuire responded that the fund had been established in 1972, at .5 percent, and continued to exist under the current bill with no material change to the percentage.

[9:59:45 AM](#)

Co-Chair MacKinnon interjected that a past lawsuit had resulted in the creation of the .5 percent royalty, to fulfill the state's obligation to the federal government in providing for the people of Alaska through education.

[10:00:10 AM](#)

Senator Dunleavy asked whether changing the amount going into the fund had been contemplated.

Senator McGuire responded that a change in the percentage was not reflected in the legislation. She thought that changes could be made to the Public School Trust Fund formula.

[10:00:59 AM](#)

Co-Chair MacKinnon looked at Slide 13, and wondered whether there would be a discussion of the logistics surrounding the 2 percent CBR, and how it would be voted on.

Mr. Logan explained that the 2 percent of the CBR was drawn from the ERA, and was a calculation of the total value of the CBR. He furthered that the value of the dividend would be attached to three things; the long-term fiscal health of the market (ERA), the short-term fiscal health of the state (royalties), and the long-term fiscal health of the state (CBR).

Co-Chair MacKinnon surmised that was a calculation rather than a draw.

[10:02:07 AM](#)

Vice-Chair Micciche looked at Slide 10, and remarked that the PFD was Alaskan's share of oil wealth. He wondered whether Alaskans considered state services as part of the royalties from mineral wealth, or would they rather have a cash payout.

Senator McGuire believed that Alaskans understood that basic government services were important and were worth collective support. She felt that Alaskans had been uneasy with the size of government and with the possibility of smaller dividends. She thought that the campaign launched by the legislature to educate the public had been successful. She said that most would like to continue to receive a dividend.

[10:06:04 AM](#)

Vice-Chair Micciche asserted that, over and above efficient and constitutionally protected services, services that were subtracting from dividend wealth needed to be determined. He felt the government spending needed to continue to be scrutinized.

Senator McGuire relayed that the dialogue that had developed between the public and leaders in state government would be helpful in determining the size and cost of state government. She thought that tracking how the

Permanent Fund dollars were affecting the economy could inform the committee's work going forward. She believed that the issue was at the heart of the fiscal conversation.

[10:10:05 AM](#)

Mr. Logan explained the Sectional Analysis (copy on file):

Section 1. AS 37.13.010(a)

This section amends AS 37.13.010(a) to reduce the share of mineral lease rentals, royalties, royalty shale proceeds, net profit shares, federal mineral revenue sharing payments, and bonuses received by the state from certain mineral leases contributed to the permanent fund from 50 percent to 25 percent.

Previously, the contribution rate had been set at 50 percent of mineral lease bonuses (except from the Beaufort Sea, which had been left at 25 percent) and 50 percent of mineral lease royalties and net profits from the Beaufort Sea and other future sales. The rate for Prudhoe Bay had been at 25 percent.

The dates listed in sub-sections (1) and (2) carve out the different geographical lease sales at the time of the Free Conference Committee Report of the Eleventh Alaska State Legislature for the HCS for SB 161, which chose to apply different percentages to mineral lease rents, royalties, etc., from each area.

The distinction is that AS 37.13.010(a)(1) addresses the Prudhoe Bay leases, and (a)(2) addresses the Beaufort Sea leases.

Section 2. AS 37.13.010(a)

Repealing Section 1. This section reverts to the current statute and is effective July 1, 2019.

Section 3. 37.13.015

This section creates a new way to calculate the dividend. Under this section the dividend calculation is as follows:

Drawn from the earnings reserve- 15 percent of the five year average of the net income of the permanent fund

Drawn from the earnings reserve- 2 percent of the market value of the constitutional budget reserve

From the general fund- 15 percent of the money deposited to the general fund from all mineral lease rents, royalties, sales and bonuses.

Section 4. AS 37.13.140

This section does two things.

First, it directs the Alaska Permanent Fund Corporation (AFPC) to determine the amount available from the permanent funds earnings reserve that is available for distribution.

It shall be calculated is 4.5 percent of the average market value (POMV) of the permanent fund, including the earnings reserve, for the last 5 fiscal years immediately preceding the fiscal year just ended.

Second, it places a revenue limitation on the amount of the POMV draw based on the amount of production taxes and mineral lease rents, royalties and bonuses.

If the income from these sources is more than \$1 Billion then the POMV draw will be reduced on a dollar per dollar bases- less the 15 percent of rents, royalties, and bonuses that are attributed to the dividend under Section 3.

[10:12:48 AM](#)

Senator McGuire explained that philosophical concepts had to be put into formulas in complicated ways, which had resulted in several drafting errors in the bill, but that

she wanted to get the cs to the committee in time for the hearing. She assured the committee that she would work with David Teal, and the committee, to craft a clean bill.

Mr. Logan continued to discuss the sectional analysis:

Section 5. AS 37.13.140

Repealing Section 4. This section reverts to the current statute and is effective July 1, 2019.

Section 6. AS 37.13.145(a)

Directs the APPC to deposit into the earnings reserve income as it is realized and received except for the income for deposit into the general fund under Section 12 of this act.

Section 7. AS 37.13.145(a)

Repealing Section 7. This section reverts to the current statute and is effective July 1, 2019.

Section 8. AS 37.13.145(c)

This section changes the statutorily defined mechanism for inflation proofing the principle of the permanent fund.

Under this section the AFPC can transfer to the principle of the fund the difference between 4 times the previous fiscal years amount for distribution, determined in Section 4, and the balance of the earnings reserve.

If the earnings reserve has 4 times the previous years' distribution, the excess can be used for inflation proofing. This ensures that before inflation proofing occurs, there is a 4:1 coverage spread for the POMV draw.

The amount transferred shall not be applied to increase the value of the fund attributed to the settlement of State v. Amerada Hess.

[10:14:58 AM](#)

Senator Hoffman asked whether the section included capital and operating monies.

[10:15:09 AM](#)

Co-Chair MacKinnon wondered whether the figures were based on the Operating Budget or the Capital Budget.

Mr. Logan replied that it was combined general fund money.

[10:15:27 AM](#)

Senator Hoffman queried the impact the section would have on the Capital Budget.

Senator McGuire interjected that it could have a political effect on the Capital Budget. She said that realistically, operations would be funded first, but occasional Capital Budget matches could be made. She referred to Slide 21, and related that if the state reached \$3.5 billion in production taxes, the bill would allow for additions to the Capital Budget.

[10:16:49 AM](#)

Senator Hoffman understood that funding the Operating Budget was the first priority, he felt that section 4 would create significant downward pressure on the Capital Budget, with no way for the legislature to address the issue. He worried that there could be no Capital Budget in a decade.

Senator McGuire agreed that adding a spending limit provision would constrain the legislature's ability to make judgement calls about future infrastructure needs. She relayed that she had attempted to address the issue in the previous committee. She felt that both the Operating Capital Budgets were equally important. She reiterated that a spending limit could decrease the legislature's ability to make Capital Budget decisions.

[10:18:43 AM](#)

Co-Chair MacKinnon felt that there should be an analysis of the AKLNG in order to show the people of Alaska how the project would affect the Operating Budget.

[10:19:38 AM](#)

Mr. Logan continued to discuss the sectional analysis:

Section 9. AS 37.13.145(c)

Repealing Section 8. This section reverts to the current statute and is effective July 1, 2019.

Section 10. AS 37.13.145(d)

Holds the settlement of State v. Amerada Hess harmless from the general fund deposits.

Section 11. AS 37.13.145(d)

Repealing Section 10. This section reverts to the current statute and is effective July 1, 2019.

Section 12. AS 37.13.145

(e) Subject to legislative appropriation, this section directs the AFPC to deposit the amount available for distribution, under Section 4 of this act, into the general fund.

(f) The commissioner of revenue may recommend adjustments to the percentage of money appropriated to the dividend fund.

(g) The commissioner of revenue shall deliver an annual report to the legislature evaluating the sufficiency of assets in the earnings reserve and the amount projected for distribution to the general fund.

[10:20:46 AM](#)

Senator McGuire urged the committee to discuss the issue with the director of the Permanent Fund Corporation, Angela Rodell. She said that the section had been adopted from the governor's plan, and knew that Ms. Rodell had expressed concerns with the language. She

[10:21:56 AM](#)

Senator Bishop wondered whether the proposal would change the investment strategy of the Permanent Fund. He thought that the change could be dangerous.

[10:22:22 AM](#)

Co-Chair MacKinnon interjected that Ms. Rodell has previously been before the committee, and that future meetings were expected with the corporation.

[10:22:41 AM](#)

Mr. Logan continued to discuss the sectional analysis, with Section 12, subsection (h):

(h) is assumed to be a drafting error, and would only apply on or after July 1, 2019 when Section 3 is repealed under Section 27 of this act.

Section 13. AS 37.13.300(c)

Makes a conforming amendment to clarify that net income from the Mental Health Trust Fund is not included in the computation of income available for distribution under Sec. 4 of the bill.

Section 14. AS 37.13.300(c)

Repealing Section 13. This section reverts to the current statute and is effective July 1, 2019.

Section 15. AS 37.13.031 (c)

Conforms to Sec 4, so that the net income of the Permanent Fund continues to be computed annually as of the last day of the fiscal year in accordance with generally accepted accounting principles, excluding any unrealized gains or losses.

Section 16. AS 37.14.031 (c)

Repealing Section 15. This section reverts to the current statute and is effective July 1, 2019.

Section 17. AS 43.23.025(a)

Makes conforming amendments for determining the value of the dividend under Sec. 3 of the bill.

Section 18. AS 43.23.025(a)

Repealing Section 17. This section reverts to the current statute and is effective July 1, 2019.

Section 19. AS 43.23.025

Allows the legislature to appropriate from the earnings reserve account an necessary funding to maintain a dividend amount of at \$1,000 in the event that the calculation determined by Sec. 3 of this act falls below that amount.

Section 20. AS 43.23.045(d)

States that unexpended appropriations to implement this act lapses into the dividend fund at the end of a fiscal year and may be used in determining the amount of and paying the subsequent year's dividend.

Section 21. AS 43.23.045(d)

Repealing Section 20. This section reverts to the current statute and is effective July 1, 2019.

Section 22.

Repeals AS 37.13.145(b)

Section 23. (Sunset Claus)e

On July 1, 2019, the following are repealed:
AS 37.13.015- New Dividend Calculation
AS 37.13.145(e) - Deposits of available funds from ERA to general funds
AS 37.13.145(f) - Commissioner of revenue can recommend changes of percentages to dividend fund
AS 37.13.145(g) - Commissioner of revenue will deliver a report to the legislature on assets of PF
AS 43.23.025(c) - minimum dividend of \$1,000

Section 24. Transition:

(a) Holds the 2016 Dividend harmless and will be calculated by status quo formula

(b) Commissioner of revenue and APFC may adopt regulations

Section 25. Transition:

(a) The 2019 Dividend will be determined by the new formula of this act, regardless of the repeal language of Section 23.

(b) Commissioner of revenue and APFC may adopt regulations

Section 26. Retroactivity

If the changes made to the calculation of the dividend and the POMV draw from the earnings reserve account are not signed into law by July 1, 2016, the act is retroactive to that date.

Sec. 1- All royalties, rents, bonuses etc. changed from 25 and 50 percent deposited to permanent fund principle, to 25 percent.

Sec. 3- New dividend calculation

Sec. 4- POMV draw and revenue limiter

Sec. 6- Deposits from the earnings reserve account to general fund

Sec. 8- new inflation proofing mechanism

Sec 10- Holding earnings from Amerada Hess settlement harmless from general fund

Sec. 12(e)-(g)- deposits from earnings reserve account to general fund and commissioner of revenue's new duties

Sec. 13 - Holding mental health trust fund earnings harmless from the calculation for distribution

Sec. 15 - Net income calculation for APFC

Sec 17 - appropriation language to dividend fund

Sec 19 - minimum \$1,000 dividend

Sec 20 - unexpended appropriation for dividend fund lapse

Sec 24 - Transition language holding 2016 dividend harmless

Section 27.

Effective date of July 1, 2019- repeals this act

Section 28.

Section 24 (2016 dividend held harmless) and
Section 26 (retroactivity) immediate effective date

Section 29.

Effective date of this act is July 1, 2016

[10:24:58 AM](#)

Senator Hoffman looked at Page 4, section 23; the sunset clauses. He remarked Section 19 set the dividend minimum at \$1000, but that Section 23 would apply a sunset date, after which there were no minimum number applied to the dividend payout.

Mr. Logan agreed with Senator Hoffman's assessment.

[10:25:50 AM](#)

Co-Chair MacKinnon wondered why the \$1000 minimum would be repealed after three years.

Mr. Logan explained that the sunset clause for the bill would allow for a review period, after which the legislature would need to extend the effective date of the bill or repeal the sunset provisions, in order to keep the program going forward.

[10:26:31 AM](#)

Senator McGuire added that the committee should discuss the issue of a sunset date as they scrutinized the legislation.

[10:28:08 AM](#)

Co-Chair MacKinnon surmised that the bill would change the pay out on the dividend for a period of time, and then revert back to the current payment method. She stressed that the legislature could revisit the statutory change in three years.

[10:29:30 AM](#)

Senator Olson wondered whether three years would be long enough to relieve the state's financial situation.

Senator McGuire replied the issue was that that now was the time to fundamentally restructure how the budget was funded. She did not believe that the program should be sunsetted.

Senator Olson commented that Senator McGuire had been on the Senate Finance Committee when it had had the forethought to put billions into the CBR.

[10:31:44 AM](#)

Senator Hoffman commented that the proposed legislation held harmless the dividend for 2016, which meant that the dividend was only reduced for 2 years.

[10:32:18 AM](#)

Vice-Chair Micciche thought that it was important to reevaluate the situation in two years, and not to keep more revenue that was needed. He hoped that it looked like the committee was taking revenue seriously, and in a way that would have the least amount of impact on the public.

Senator McGuire trusted that the committee would work to craft a balanced and effective piece of legislation, with or without the sunset clause.

[10:33:51 AM](#)

Co-Chair Kelly wondered why the legislature did not follow the constitutional spending limit. He hoped a constitutional lawyer could testify before the committee on the issue.

[10:34:44 AM](#)

Senator Dunleavy concurred with Co-Chair Kelly. He felt that Section 16 of the Alaska Constitution discussed capping the budget.

[10:35:44 AM](#)

Senator Hoffman pointed out that there were Constitutional provisions that required the state to spend a larger percentage on Capital Projects than was currently being spent.

[10:36:23 AM](#)

Co-Chair MacKinnon agreed that the conversation would be fruitful.

[10:37:31 AM](#)

Senator McGuire thanked the committee and committee staff.

[10:37:46 AM](#)

Co-Chair Kelly remarked that the price of oil was only a proximate cause for the state's fiscal woes. He lamented that spending was too high, but also that "silk suited lawyers from the East Coast" had been "beating Alaska down" in the courts and preventing the state from developing its natural resources. He added that environmentalists had interfered with the states development of natural resources.

[10:39:55 AM](#)

Vice-Chair Micciche was bothered by the growth of government. He hoped that as revenue increased the state would be disciplined in its government spending.

[10:41:02 AM](#)

Senator Bishop reiterated the need for deferred maintenance funding.

Co-Chair MacKinnon discussed housekeeping.

SB 114 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

10:42:42 AM

The meeting was adjourned at 10:42 a.m.