

HOUSE FINANCE COMMITTEE  
FOURTH SPECIAL SESSION  
June 17, 2016  
11:06 a.m.

11:06:52 AM

CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 11:06 a.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 Kurt Olson; Representative Craig Johnson;  
Representative Liz Vasquez; Representative Charisse Millet;  
Representative Louis Stutes; Representative Lora Reinbold;  
Representative Shelly Hughes; Representative Andy  
Josephson; Representative Dan Ortiz; Representative Bob  
Herron; Representative Garran Tarr.

SUMMARY

SB 128 PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS

HCS CSSB 128(FIN) FAILED to MOVE OUT of  
committee.

#SB138

CS FOR SENATE BILL NO. 128(FIN)

"An Act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska permanent fund, and the earnings reserve account; relating to management of the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) by the Alaska Permanent Fund Corporation; relating to procurement by the Alaska Permanent Fund Corporation; relating to the mental health trust fund; relating to deposits into the dividend fund; relating to the calculation of permanent fund dividends; relating to unrestricted state revenue available for appropriation; and providing for an effective date."

11:07:57 AM

}Randall Hoffbeck, Commissioner, Department of Revenue{ he remarked that the legislation was the cornerstone for fiscal stability. The administration had worked to accommodate the interest in hearings and private meetings. He remarked that the original proposal included a one-year guarantee of a \$1000 Permanent Fund Dividend (PFD). He shared that the Senate had changed that guarantee to three years. He shared that that the current bill had two years guaranteed at \$1500 and a formula adjustment that would put the PFD to \$1000 and keep it stable moving forward as oil prices and revenues grow in the Permanent Fund. He noted a provision that allowed for additional sharing on the upside with production taxes greater than \$2.3 billion, so 10 percent of the taxes above that amount would go toward the PFD. He shared that the bill allowed for greater sharing of the PFD at higher oil prices. He noted that the original bill had the PFD as a royalty dividend. Some believed that the royalty was too volatile, because of the low price and declining production of oil. He announced that the Senate had added a provision that tied the PFD tied partially to the (percentage of market value) POMV draw, and partially to royalties. The PFD would then be close to \$1000 per year. He stated that the bill increased the royalty provision to allow for more certainty in the \$1000 zone. He remarked that the legislature had hoped for flexibility, so the bill was adjusted to a POMV draw. He remarked that the draw had a revenue cap that allowed for a dollar for dollar offset of the permanent fund draw. The Senate felt that it

limited growth and opportunity, so that was adjusted to an 80 cents on the dollar draw to allow for money available for appropriation. The change added a provision provides an opportunity to turn off the revenue limits in times of high oil prices and high oil production. He announced that the administration had worked hard to accommodate as many needs as possible. He assumed that everyone had made great efforts to come to a compromise. He understood that no one was comfortable with everything in the bill, but felt that the bill accommodated as many needs as possible. He stressed that the bill must be passed, because there was a continued budget deficit.

Co-Chair Thompson wanted to clarify that the bill was the governor's bill rather than his.

11:14:02 AM

Representative Gara suggested that much of the bill was a compromise. He wondered about the commissioner's comments about the pressure to pass the bill as related to the change in status quo.

Commissioner Hoffbeck stated that the bill would spend less than the status quo. The bill would save about \$350 million in the current year, and stressed that there was no way to replace that money.

Representative Gara asked about waiting for the next year to take action. He wondered about the ramifications of waiting to pass the bill. He surmised that the payout of any bill in the following year would be smaller than the payout of the current year.

Commissioner Hoffbeck replied in the affirmative.

Representative Gara asked about the revenue limit in the former version of the bill. He remarked that the current version had a revenue limit. He stated that the current version of the bill outlined that every dollar in oil revenue resulted in the loss of ability to use 80 cents of POMV payouts. He felt that it was a strict revenue cap.

Commissioner Hoffbeck agreed, but asserted that there was still room for growth.

Representative Munoz asked the commissioner to comment on the effect of the sustainable draw with the substantial withdrawal of \$3.2 billion.

Commissioner Hoffbeck stated that the biggest change was the payout of the dividend. The biggest issue that the bill solved was removing most of the volatility. He remarked that the math did not matter between the two different reserves.

[11:20:34 AM](#)

Representative Munoz asked about the financial impact of not investing the CBR.

Commissioner Hoffbeck stated that the 7.25 percent return was \$150 million.

Representative Munoz surmised that the \$150 million would be lost as a result of not adopting the legislation.

Commissioner Hoffbeck replied in the affirmative, because there would be a requirement to invest differently. He stressed that the bill moved the management of the CBR to the Permanent Fund. He stated that Department of Revenue (DOR) did not have that flexibility under the current structure.

Representative Edgmon wondered whether the governor would veto the PFD full amount in the operating budget, if the legislature passed the bill.

Commissioner Hoffbeck would not need to veto the budget immediately. He remarked that the bill would dictate the PFD payout and there would be excess funds in the PFD account. The question would be raised the following year to veto the money from the PFD appropriation amount.

[11:24:05 AM](#)

Representative Edgmon stated that even though the bill was the cornerstone of the fiscal plan; he wondered if the administration would come back in the following year to revisit other items to address the budget deficit.

Commissioner Hoffbeck stated there would continue to be a downward pressure to cut spending. He reported that the

state's reliance on revenues from oil would reduce to 25 percent.

Vice-Chair Saddler asked about the impact of the state's cost of borrowing with a one downtick in the state's bond rating.

Commissioner Hoffbeck replied that there would be an impact and agreed to provide that information.

Co-Chair Thompson remarked that there would be a \$150 million bond in the fall. He recalled that the difference in the bond rating was a cost of approximately \$37,000.

Co-Chair Neuman added 1 percent of \$150 million was \$1.5 million. He furthered that one-quarter of \$1.5 million was \$375,000; therefore the effect of delay was \$375,000.

Commissioner Hoffbeck shared that the downgrade would result in 25 basis points issued. He looked at the 2012 Transportation Act, and noted that there was still approximately \$265 million of authorization for general obligation bonds. He remarked that the downgrade would cost the state upwards of \$6.6 million.

Vice-Chair Saddler understood the CBR had been managed as a liquid asset. He wondered if the money had been invested differently, what the extra gain would have been.

Commissioner Hoffbeck responded that the Permanent Fund was returning less than 1 percent currently.

Vice-Chair Saddler wondered what would occur should the bill not pass, and whether the governor would veto money from the operating budget.

Commissioner Hoffbeck replied that he could not speak to the governor's actions. He felt that the governor had made it clear that he had a duty to have a fiscally sound budget that was in line with long-term revenue forecasts.

[11:30:47 AM](#)

Representative Wilson asked for clarification about the bonds. She wondered if the bonds were state bonds.

Commissioner Hoffbeck in the affirmative.

Representative Wilson assumed that some bonds belonged to the municipalities.

Commissioner Hoffbeck replied that she was correct and that there were other bonds.

Representative Wilson asked if the only way to touch the corpus of the permanent fund by a vote of the people.

Commissioner Hoffbeck responded in the affirmative.

Representative Wilson asked why the governor would not want the voters to determine the fate of the PF. She wondered if the governor had discussed taking a vote to the people.

Commissioner Hoffbeck responded that perhaps it was an ideological question. The people were expected to be represented by the legislature.

Representative Wilson stated that the money from the PF belonged to the people and she thought that the issue warranted a people's vote.

Commissioner Hoffbeck replied that the current structure allowed for access to the PFD and the earnings reserve.

Co-Chair Thompson had heard and read that if the legislature depleted its savings and could not pay its bills - the federal government could come in and take from the PF.

Commissioner Hoffbeck replied that, at some level, the state would not be able to protect the corpus of the fund.

Representative Wilson stressed that government was receiving their share of the oil money.

[11:37:19 AM](#)

Representative Gara stated that one of his problems had been that the state was not given its fair share of oil revenues. He wondered if the current bill had the largest PFD payout.

Commissioner Hoffbeck responded in the affirmative.

Representative Gara surmised that increasing production tax revenue could reach a \$2000 that would increase with inflation.

Commissioner Hoffbeck replied that the provision would be inflation-proofed, so there would not be a restriction.

Representative Gara asked about the dividend formulas based on royalty projections.

Commissioner Hoffbeck replied that it depended more on the value of the Permanent Fund rather than the price of oil.

Representative Edgmon asked about the downward pressure on investment. He asked for a statement of the overall economic health of the state.

[11:41:58 AM](#)

Representative Munoz expressed the impact of the sustainable draw of the PF over time. She remarked that the CBR savings could extend to seven or eight years. She stressed that not passing the legislation would take a \$3 billion from the CBR in the current and following years. She also asserted that the legislation was not able to maintain savings.

Commissioner Hoffbeck stated that she was correct that the CBR would be totally depleted.

Vice-Chair Saddler asked about some accounting questions.

Commissioner Hoffbeck replied that they were outlays.

Co-Chair Thompson thanked the commissioner for being available for questions.

[11:44:36 AM](#)

AT EASE

[11:46:19 AM](#)

RECONVENED

Co-Chair Thompson relayed that all of the fiscal notes were informational.

[11:47:06 AM](#)

Co-Chair Neuman explained that he was a no vote on the bill. His constituents have expressed their opposition. However, he felt that the bill should come before the full body to have the opportunity to vote. He relayed that the bill was the governor's bill and that the governor had relayed that the legislature would have to come back, if they did not pass this bill. He did not believe that the bill would pass before the full body. The governor would have to come back with a bill in a special session. He emphasized the need to continue to reduce government spending. He noted the \$3.2 billion draw on the CBR. The CBR would be down, and only available for one more draw. The people had asked for further reductions prior to taking their dividends.

[11:52:09 AM](#)

Co-Chair Neuman continued that his constituents had expected legislators to make difficult decisions. He thought there was additional required to fully understand the impact of the bill. He would be voting to move the bill out of committee because he felt that the full body should vote on the bill.

[11:53:44 AM](#)

Vice-Chair Saddler emphasized the importance of the current bill. He would not be voting to move the bill out of committee. He thought the budget needed to be reduced further. He did not want to take the chance of putting the bill on the floor and having it amended in a negative form. He reviewed many of the cuts he thought could be deeper for the state overall. He mentioned union salary increases and the additional money for education. In his district constituents were in favor of cutting the budget further. He also thought the legislation was based on fear which he was unsure was true. He thought it might be a crisis of convenience. He was concerned what the bill would look like at the end of the floor session and he did not want to take that risk. He thought it was the committee's responsibility to fully amend and correct the bill, and engage in further conversations.

[11:59:06 AM](#)

Representative Edgmon thanked Governor Walker for bringing a package forward. He thought in looking into the future that the support might not be looking He thought the legislature would be faced with using the earnings reserve in the near future. He thought constituents needed to have a full say in the situation. He encouraged the administration to get more public buy in. He stated that in his district that there was a lot of support for continued budget reductions. He relayed that it had taken almost a decade to get the dividend in place, so he did not want to make any hasty decisions. He thought maybe more work needed to be done to educate the public. He would be voting to move the bill out of committee to see the bill on the floor before the whole body. He would question if the governor called the legislature back into session on June 22nd. He knew that everyone around the table wanted to reduce the budget.

[12:04:16 PM](#)

Representative Gattis did not believe the bill was "ready for prime time." She thought that while people were seeing teachers get raises, this was not an appropriate time to take money from the people of the state. She would not be voting to move the bill out of committee. She spoke of the difficulty of conveying the fiscal severity the state was facing. She would be a no vote.

Representative Guttenberg would be voting no to move the bill out of committee. He thought the budget was too big but for different reasons. He thought that before asking people to give up part of their dividends the state should not be paying out tax credits. He thought it was time to reevaluate and stop the hemorrhaging by giving out credits. The benefit of giving out the credits was small and closing the budget with them was small. He did not feel the policy call was spreading the burden to all Alaskans in a fair way. He claimed that his constituents wanted a broad based solution.

[12:10:49 PM](#)

Representative Kawasaki shared many of the same objections as Representative Guttenberg. He applauded the governor for the work to balance the budget. He relayed the difficulty in decreasing the budget by \$500 million and also the drop in the capital budget over the previous two years. There

had been some deep cuts. The state would not be able to balance the budget with such extreme efforts. He did not think the bill was comprehensive or fair. He thought the committee was looking at the most regressive piece of the fiscal plan. He felt that the dividend cut, which would impact many jobs. He opined that it was the worst option that could be done out of the comprehensive budget.

[12:16:26 PM](#)

Representative Pruitt stated that it was tough. He equated the situation to an individual who had been saving all of their life, and then not having access to those funds. He thought it would be a huge shift for Alaska. He commented that once the state put its hand in the cookie jar the state would not be able to pull its hand out. He provided an example of a constituent that had lost his job. He expressed his frustration with being threatened about being elected. He cared about Alaska. He indicated he had planned to offer an amendment that would make three changes. He mentioned not having the ability to have a conversation. He would be a no vote. He did not believe he had not given the people the opportunity to weigh in. He did not think constituents would support the bill. He asked that the committee's decision through the process be respected because legislators were closest to the people of Alaska.

[12:24:33 PM](#)

Representative Wilson wanted to remind the committee that they had already done many hard things including Medicaid reform. There would be other issues that would have to be addressed. She had heard that the governor would pull the legislature back in session, if they did not follow his desires. She thanked the chairman for having additional public testimony. She did not believe the bill was ready and she did not have the buy in from her constituents. She thought much more conversation had to be conducted before the bill could advance. One of the largest hits to the economy would be to use the PFD to solve the fiscal process. She would be returning home to have additional conversations with her constituents.

[12:28:52 PM](#)

Representative Gara would be voting affirmatively to move the bill from committee. He agreed with his caucus members

that there was more balance needed by changing the credit structures. He discussed the budget issues facing the state.

[12:32:48 PM](#)

Co-Chair Thompson commended the administration for attempting to balance the budget with creative efforts.

Co-Chair Neuman MOVED to REPORT HCS CSSB128 (FIN) out of committee with individual recommendations and the accompanying fiscal notes.

Representative Wilson OBJECTED.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Munoz, Edgmon, Thompson, Neuman  
OPPOSED: Gattis, Guttenberg, Kawasaki, Pruitt, Saddler, Wilson

The MOTION FAILED (5/6).

HCS CSSB 128(FIN) FAILED to MOVE OUT of committee.

#

ADJOURNMENT

[12:37:03 PM](#)

The meeting was adjourned at 12:37 p.m.