

SENATE FINANCE COMMITTEE

March 23, 2016

9:04 a.m.

9:04:04 AM

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:04 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

David Teal, Director, Legislative Finance Division; Fran Ulmer, Self, Juneau; Frank Bergstrom, Self, Juneau; Mary Becker, Mayor, City and Borough of Juneau; Erin Walker Tolles, Catholic Community Services, Juneau; Bill Corbus, Self, Juneau; Tom Brice, Self, Juneau; John Binkley, Self, Juneau; Don Etheridge, Alaska AFL-CIO, Juneau; Jake Todd, Self, Juneau; Laura Stats, Self, Juneau.

PRESENT VIA TELECONFERENCE

Beverly Hoffman, Self, Bethel; Reyne Athans, Self, Bethel; Mike Martz, Self, Bethel; Sue Steinacher, Self, Nome; Julie Decker, Self, Wrangell; David Otness, Self, Cordova; Lynette Clark, Self, Fairbanks; Glen Marunde, Self, Northway; Dan Apted, Self, Anchorage; Janet McCullough, Self, Palmer; Bernie Hoffman, Self, Fairbanks; James Squyres, Self, Rural Deltana; Mike Swain, Self, Anchorage; Ed Martin, Self, Hawaii; Ross Mullins, Self, Cordova; George Pierce, Self, Kasilof; Tom Lakosh, Self, Anchorage; Mead Treadwell, Self, Anchorage.

SUMMARY

SB 114 PERM FUND: EARNINGS, DEPOSITS, ACCOUNTS

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

SB 128 PERM. FUND: DEPOSITS; DIVIDEND; EARNINGS

SB 128 was HEARD and HELD in committee for further consideration.

#sb114

#sb128

SENATE BILL NO. 114

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

SENATE BILL NO. 128

"An Act relating to the Alaska permanent fund; relating to appropriations to the dividend fund; relating to income of the Alaska permanent fund; relating to the earnings reserve account; relating to the Alaska permanent fund dividend; making conforming amendments; and providing for an effective date."

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Co-Chair MacKinnon discussed the forthcoming presentation.

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, stated that SB 114 and SB 128 both pertained to re-plumbing the state's cash flow. He thought that models were the best way to compare the fiscal impact of the two bills. He considered that the models provided a comparison of projected deficits, as well as the dividend and reserve balances under the bills and any other options being considered. He emphasized that it was important to understand how the plans differed in order to understand the models.

Mr. Teal discussed the presentation "A Comparison of Plans to Re-Plumb Alaska's Cash Flow," (copy on file). He explained that cash flow diagrams were simplistic

representations of various options that showed where the money flowed. The diagrams could not illustrate how much money was moving in different areas, and could not communicate if a plan was fiscally sound or how it would respond to changes in revenues or interest rates. He thought the diagrams also depicted where the decision points were, which would elucidate which decisions were important and what the trade-offs were for each scenario.

Co-Chair MacKinnon referred to the new spring forecast, which had come out the previous week. She asked Mr. Teal to frame his presentation in relation to the new spring forecast.

Mr. Teal noted that the spring forecast did not affect the diagrams being presented. He reiterated that the diagrams simply showed where cash flowed, but not how much; whereas each model would inform the amounts of funding. He commented on the downward change in the new forecast, and discussed the one percent decrease in anticipated long term interest earnings recently published by the Permanent Fund Corporation (PFC). He had not been able to evaluate the reason for the significant change, and hoped to gain further insight later in the day after meeting with state officials.

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Co-Chair MacKinnon related that she had met with the executive director of the Permanent Fund Board, who would be reaching out to the commissioners of the Department of Revenue and the Department of Law. She continued that she had discussed the one percent differential.

Co-Chair MacKinnon asked if the presentation model would reflect the lower interest rate and if it dealt with numbers from the fall forecast.

Mr. Teal explained that the model was flexible, and the intent was to allow the committee to demonstrate and observe what would happen in various scenarios.

Senator Dunleavy was under the impression that the amounts being discussed did not matter, the model was to depict mechanics. He wanted to ensure that the plan take care of the deficit problem if the mechanics of the permanent fund were being considered.

Mr. Teal concurred, particularly considering the revised earnings forecast; and did not think that any of the sponsors of the bills considered that the plans would completely solve the problem. He suggested that using the earnings of the permanent fund was perhaps the biggest lever that the legislature had, but even using the earnings was insufficient to solve the issue. He continued that legislature still faced decisions between reducing expenditures and increasing revenue.

Co-Chair MacKinnon stated that she had misunderstood the function of the models when she previously asked about updating the presentation to reflect the new forecast.

Mr. Teal detailed that he would be showing slides to represent current cash flow and the changes to cash flow; first under the governor's Permanent Fund Protection Act (PFPA) in SB 128, and then under SB 114.

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Mr. Teal addressed slide 2, "Current Cash Flow," which depicted a flow chart of revenues and revenue locations. He thought the first important item to notice was the separation of the permanent fund into the principal and Earnings Reserve Account (ERA). He pointed out that there was no arrow on the chart between the permanent fund and the general fund (GF), because (with minor exceptions) permanent fund accounts were not used for government expenditures. He continued that the earnings from the permanent fund would accumulate in the ERA and was shown on the chart by an arrow labelled "Statutory Net Income," and included earnings from the ERA itself. He emphasized that the permanent fund dividend (PFD) was the first priority under the law, and was calculated at 50 percent of a five-year moving average of earnings. He emphasized that the PFD was dependent upon investment earnings alone and had no firm connection to the fiscal health of the state, but rather was a reflection of the fiscal health of financial markets. There were strong rules for paying out dividends, which were calculated using a formula put forth in law. He pointed out a loop between the permanent fund principal and the ERA on the chart, depicted by the statutory net income arrow as well as an arrow entitled "Inflation proofing." He explained that inflation proofing was simply sending a portion of the earnings back into the corpus of the fund to

protect against inflation and retain real market value. He indicated another connection to the permanent fund was a portion of royalties that flowed into the fund, indicated on the chart by an arrow.

Mr. Teal highlighted the GF on the chart, to which income was shown coming from royalties (from gas and oil), production tax; as well as a "Less Volatile Revenue" box, which was the taxes, fees, corporate income tax, and other things. He remarked that the royalties and production tax were considered volatile revenue sources. When oil revenue was high, there was a surplus to spend or save; and when there was a deficit, money was pulled from reserves. He pointed out that the diagram was simplified and did not include surplus revenue such as the state budget reserve (SBR).

Mr. Teal continued on slide 2, and stated that the current model did not function well in a low-production, low-price environment like the state was currently in. He thought the only way for the current model to work was to cut expenditures by about two-thirds, or increase other revenues substantially. He discussed the eventuality of running out of reserves, and referred to the fall forecast prediction that the Constitutional Budget Reserve (CBR) would be exhausted in FY 19. He added that the short time-frame for the exhaustion of state reserves was the primary reason for the downgrade in the state's credit rating, as well as the primary reason for examining alternative cash flows.

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Co-Chair Kelly pointed out that the state did not deficit spend, and the state was not incurring debt by spending savings.

Vice-Chair Micciche referred to the committee's discomfort with unrealistic optimism with the fall and spring forecasts. He thought the recent forecast was a healthier way to conservatively analyze what revenues could be expected. He did not have a pessimistic view of the forecast, and thought it was a more realistic viewpoint.

Co-Chair MacKinnon concurred, and commented that the issue was changing. She was interested in seeing the probability of failure of plans that were implemented. She hoped for

steady interest income if the state was receiving a low price per barrel of oil. She thought the two bill proposals were not going to fare as well since the two variables in question were not performing as well.

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Mr. Teal thought it was important for people to realize when he used the word "deficit" he was referring to a cash flow deficit rather than deficit spending. He reiterated Co-Chair Kelly's comments that the state was spending reserves rather than incurring a deficit. He thought cash flow was an important concept, and reminded the committee that the forecast was a projection rather than a prediction. He continued that in modelling, there had been a smooth path predicted for oil prices, and a constant interest rate; even though both were volatile. He acknowledged that the model could not reflect the ever-changing rates, and therefore it was good to use conservative assumptions.

Mr. Teal discussed slide 3, "1. Change Royalty Percentage (PFPA)," and indicated that the next five slides would show how the Permanent Fund Protection Act (PFPA) would change the plumbing of state finances. He stated that the first change would be from savings mode to harvest mode. He thought some would ask why the state would contribute more than the constitutional minimum of royalties to the permanent fund principal. By reducing from 30 percent to 25 percent of royalties to the principal (where they could not be spent), there would be 5 percent available to be spent.

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Mr. Teal continued on slide 3, stating that both royalties and production tax had been reallocated by the governor from the GF to the ERA, which equated to a shift of about \$1 billion. He explained that as the funds were diverted from the GF, it was replaced with a sustainable draw. The draw was planned for approximately \$3.3 billion, and could be adjusted downward by the commissioner of the Department of Revenue if conditions were less favorable than predicted. Conversely, the draw could be adjusted upward with inflation. He noted that inflation would change from an annual, mechanical, statutory rule to retain the market value of the permanent fund to an overflow concept. He thought that it was arguable that there was no inflation-

proofing unless money was in the corpus and protected from spending. He posited that the aforementioned 25 percent savings did not count as inflation-proofing, but was in fact additional savings that should be inflation proofed. The other extreme was arguable in that it did not matter which account the money was in. The value of the permanent fund was the sum of the two accounts, and inflation-proofing (by putting money in the corpus) increased the risk of running down the ERA, which supported the sustainable draw. He thought it was important to realize that the sustainable draw came from the ERA, and anything in the permanent fund principal could not be spent.

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Vice-Chair Micciche asked to clarify that Mr. Teal was reviewing the governor's plan, and wondered about a \$3 billion deposit from the CBR to the permanent fund corpus to increase the draw.

Mr. Teal answered in the affirmative, and elucidated that the diagram was meant to illustrate a long-term flow, and did not reflect the one-time deposit. He referred to long arguments on the subject made in the Senate State Affairs Committee, and stated that he would touch on some of the legal arguments and solutions later in the presentation.

Mr. Teal discussed inflation-proofing, and thought the consideration of how it should be done was more of a personal preference than right or wrong. He suggested that the committee refrain from debating the topic for the present.

Co-Chair MacKinnon asked if it was fair to say that under both models inflation-proofing and capping in the permanent fund was the source of all the funds being considered. Mr. Teal answered in the affirmative.

Co-Chair MacKinnon discussed the permanent fund. She thought there were two choices; not to inflation-proof, or to reduce the PFD to create additional revenue for state government.

Mr. Teal concurred.

Vice-Chair Micciche considered the proposed \$3 billion deposit, and thought that in order to get to a \$3.3 billion

draw, there would need to be a 6 percent draw in the current year.

Mr. Teal stated that the draw was higher in early years (about 6 percent). He pointed out that there was a new forecast out and new interest rates. He stated he had examined the numbers earlier in the morning and had observed that under the new forecast, including a full percent lowering of long-term interest rates, the sustainable draw dropped from \$3.3 billion to approximately \$2.5 billion. He confirmed that a sustainable draw needed to be carefully examined.

Co-Chair MacKinnon commented that there had been a model examined by the legislature for a couple of months, but with new market numbers there was a more conservative view and the draw substantially dropped. She acknowledged that the Commissioner and the Deputy Commissioner of the Department of Revenue (DOR) were in the audience.

She asked for DOR Commissioner Randall Hoffbeck to get a new report from Callan Associates to reflect the spring forecast. She thought the report would aid the committee in making a decision. She clarified that she was not criticizing the model being used, but rather that the current outcomes looked different than at the start of the year.

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Mr. Teal highlighted slide 7, "5. Change Dividend Source and Calculation (PFPA)" which illustrated changing the amount and source of the permanent fund dividend, based on 50 percent of the previous year's royalties. He highlighted the practical consideration of paying a dividend in October with royalties that would be coming in up to nine months later. He clarified that dividends would be based on royalties from the prior year. He drew attention to arrows on the slide that showed 74.5 percent of royalties going to the ERA, and 50 percent of royalties going to dividends.

Mr. Teal thought the cash flow diagram was no more complicated than the current cash flow, and the whole plan was to reduce revenue volatility. He explained that by moving the two volatile revenue sources (royalties and production tax), to point to the ERA rather than the GF, it would provide a more stable draw from the ERA. He thought

that conceptually the governor's plan [SB 128] worked to stabilize GF earnings. He echoed Co-Chair MacKinnon's comments that there was no new money included in any of the plans being presented, and essentially the plans were re-plumbing only. He commented that if one were to look at the governor's plan as a whole, there was also expenditure reductions and revenue enhancements. He pointed out that the committee was currently only looking at the re-plumbing portion of the bill.

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Mr. Teal thought the plan explicated in SB 128 raised some concerns, and specified that redirecting royalties and production taxes to the ERA raised some legal issues. Additionally, the governor's plan put a portion of the CBR in to the ERA, which problematically changed the character of the account. Currently the ERA only held permanent fund earnings, was considered part of the permanent fund, and could not be swept into the CBR at the end of each year. He pondered the idea of three different fund sources and categories going into the ERA, and spending from the account without knowing from whence the funds came. He recognized that the ERA was able to be spent at any time for any purpose. He did not consider the scenario to be a real problem, and thought the motivation for putting the taxes in was very clear - it gave the governor the sustainable draw that he had prioritized. He discussed the motivation for drawing from the CBR, and the differences in interest between the CBR (2 percent) and the ERA (close to 7 percent). In addition to 5 percent greater interest, earnings of the CBR remained in the CBR, while earnings of the ERA could be spent with a simple majority vote. He thought the easy way to do what the governor wanted was to create another account that held royalties and production tax, and iterate that the sustainable draw was based on the sum of the two with the corpus, the ERA, and the CBR. He informed that it was not necessary to physically combine the balances to combine them on a spreadsheet and determine the draw. He emphasized that he did not want to spend any more time discussing the legal issues, unless the committee wanted to delve further.

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AT EASE

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RECONVENED

Mr. Teal referenced slide 8, "Current Cash Flow" and discussed another concern with SB 128. He pointed out that under the PFFPA, any potential extra funds from production tax (with higher oil prices) would go in to the ERA; therefore the sustainable draw would not increase and the windfall could not be spent as it currently could with the funds flowing in to the GF. He referred to testimony by DOR earlier in the week that pertained to allowing an upper adjustment; however the current bill did not allow an upper adjustment of the spending limit except for inflation. He was concerned that if the amount was adjusted with windfall revenue, the state could spend approximately one twentieth of the revenue in each year. If the revenue was unable to be spent, the bill would provide incentive to break the rules in order to access the funds.

Vice-Chair Micciche wondered where the CBR could be deposited without a three-quarter vote. Mr. Teal stated that removing any money from the CBR currently required a supermajority vote.

Vice-Chair Micciche disagreed that the funds could not be deposited in the corpus.

Mr. Teal stated that it was possible to deposit from the ERA into the corpus at any time, but an appropriation from the CBR required a supermajority vote, except under certain conditions outlined in Article IX, Section 17 (b) of the constitution.

Co-Chair MacKinnon asked if the entire ERA was put in to the corpus of the permanent fund, it would be possible to access the CBR under the current scenario.

Mr. Teal answered in the affirmative, and stated that the reason for not being able to access the CBR was a provision that stated the money available to spend must exceed to the amount appropriated in the prior year. If the state was to drain the ERA by putting it in the corpus of the PF, the legislature could avoid a supermajority vote on the CBR. It was also possible to deposit the ERA funds into the CBR, and it would be possible to have simple majority access to the CBR. He thought it did not make sense to take ERA funds to run through the CBR, when it was possible to go directly from the ERA to the GF with a simple majority vote.

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Senator Hoffman thought the simplest way to access the CBR through a simple majority vote was to change the constitution.

Mr. Teal concurred.

Mr. Teal addressed the third issue with the PFPA, stating that the act relied heavily on long-term projections and was sensitive to changes in interest rates and oil revenue. He reiterated that there was a substantial effect on the sustainable draw, due to the lower interest rate and relying very heavily in the long-term on the high interest rate.

Senator Bishop theorized that for the governor's plan to be more complete and less volatile (by protecting the permanent fund and the sustainable draw, etc.), more revenue was needed that was less volatile. Mr. Teal responded in the affirmative, and clarified that less volatile revenue would include many of the governor's tax proposal plans including the motor fuels tax and the income tax.

Mr. Teal outlined that the fourth issue with the governor's plan was a semantic issue or technicality, and asked the committee to keep in mind that a sustainable draw was not synonymous with a sustainable budget. He furthered that even if it was possible to project the draw accurately, it would not necessarily fill the deficit. He posited that the re-plumbing alone did not fill the anticipated deficits. He furthered that the governor was aware of the fact, and therefore had included expenditure reductions and revenue measures in his plan to fill the deficits after the re-plumbing was accomplished.

Senator Hoffman wondered if the deficit increased from \$3.8 billion to \$4.1 billion as a result of the spring forecast. Mr. Teal recounted that there were a number of factors affecting the deficit; the revenue itself was reduced, and as a result tax credits went up. He reminded the committee that when oil prices were low, profits were low; therefore there was a better chance of having credits to turn in for cash rather than the credits deducted from tax liability.

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RECONVENED

Mr. Teal stated that LFD was not finished looking at the full impact of the new revenue forecast.

Co-Chair MacKinnon stated that the committee was interested to know the impact of the forecast on FY 16. She clarified the span of fiscal years. She thought the spring forecast was impacting the legislature during a span between FY 16 and FY 17, and considered that the legislature would have the fiscal year reconciled the following January. She discussed the importance of how much was drawn from savings in FY 16, and how much was proposed to be drawn in FY 17. She noted that there was already a provision for withdrawing up to \$500 million from the CBR in FY 16, a portion of which was expended when the state had purchased information from TransCanada as it exited the Alaska Liquid Natural Gas (AKLNG) project.

Mr. Teal discussed the alternate fiscal plan as presented in SB 114, and informed that he would be showing the same set of diagrams, starting with the diagram "Current Cash Flow" on slide 8.

Mr. Teal looked at slide 9, "1. Change Royalty Percentage (SB114/HB303)" and noted that the first change was identical to slide 3, and signified reduction of the share of royalties going to the permanent fund.

Mr. Teal turned to slide 10, "2. Add POMV Payout (SB114 / HB303)" and noted another facet of the bill was the Percent of Market Value (POMV) draw. He noted that under SB 114, the royalties and production taxes still pointed to the GF, whereas under the governor's plan they were moved to the ERA. He estimated that the original bill had put forth 5 percent, and if the permanent fund value was \$50 billion, it would signify a 2.5 percent payout. He thought the payout would be somewhere in the 2.3 percent to 2.5 percent range as time went on.

Co-Chair MacKinnon clarified that under SB 114, there would be a combination of permanent fund principal and the ERA to do the draw. Mr. Teal concurred.

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Mr. Teal thought that it was critical to understand that the 5 percent draw was not an essential part of SB 114; the draw was whatever the legislature determined it to be.

Mr. Teal discussed slide 11, "3. Remove Inflation Proofing (SB114 / HB303)." He relayed that the original bill (SB 114) made no mention of inflation proofing, but it did not signify that there would not be inflation proofing. He gave an example of expected earnings at 6.9 percent, with a 5 percent payout. Under the scenario excess earnings would accumulate in the ERA and eventually be appropriated to the permanent fund principal and inflation-proof the fund if they were deemed sufficient by the legislature. He discussed considering whether the sum of the two accounts kept pace with inflation. He summarized that the governor's concept of "overflow" inflation-proofing could easily be incorporated into SB 114.

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Mr. Teal showed slide 12, "4. Change Dividend Source and Calculation (SB114/HB303)." He noted that PFDs were higher under SB 114 than under the PFPA in SB 128. He stated that the governor's bill took 50 percent of prior years' royalties, whereas SB 114 similarly had 74.5 percent of previous year's royalties going to dividends.

Senator Hoffman asked about the provision of SB 114 that yielded a higher, fixed dividend; and wondered about dividends under SB 128 in the long term.

Mr. Teal revealed that the governor's plan took 50 percent of the previous years' royalties for dividends, whereas SB 114 took 74.5 percent of the previous year's royalties, ergo SB 114 would always pay higher dividends. He clarified that SB 114 might have a dividend floor of \$1000. Under the governor's plan, dividends would be in the \$700 range under the fall forecast and decrease to the \$500 range under the spring forecast. In SB 114, dividends would be fixed at \$1000 regardless of market conditions. He concluded that depending on the version of SB 114, dividends would always be higher, and perhaps substantially higher.

Co-Chair MacKinnon asked if a dividend floor was set and attached to royalties, and what would happen if the

royalties could not pay out the sufficient amount. Mr. Teal stated that dividends did not necessarily come from royalties; rather it was an amount equivalent to prior year's royalties. Royalties went to the GF, and if they were less than the dividend payment, additional GF would be used to pay the dividends.

Co-Chair MacKinnon wondered if the subject was something to review. She thought the spring forecast indicated that in five to ten years there would be oil volume in the 200 to 300 barrel range.

Mr. Teal confirmed that total royalties were expected to decline over time, even as prices went up, therefore dividends would decline over time.

Co-Chair MacKinnon thought that the spring forecast did not take in to account new promising finds in the oil fields and stayed with a conservative approach. Mr. Teal was not aware of new finds, and stated that the fall forecast was treated similarly.

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Mr. Teal displayed slide 13, "PFPA vs. SB114/HB303" which was a comparison of SB 128 and SB 114. He noted that the black arrows on the slide signified cash flow conditions that remained the same; while the PFPA was shown in blue, and SB 114 was shown in red. He noted that both bills treated the dedicated portion of royalties the same, with .5 percent going to the Public School Trust Fund, and 25 percent to the permanent fund principal. He pointed out a difference in where royalties and production tax were directed: to the GF under SB 114, and to the ERA under the PFPA. He highlighted the difference in the bills comparing a fixed draw to a POMV draw. He elucidated that at \$85/bbl oil, production taxes would be about \$800 million. The fixed draw, under the original plans, was \$3.3 billion. The POMV draw would pay about \$2.5 billion, but the production tax continued to go in to the GF. He summarized that under SB 114; if the price of oil was less than \$85/bbl, the GF would get less money, and if oil was more than \$85/bbl, the GF would get more.

Mr. Teal continued to discuss slide 13, and thought that the committee would need to debate the method and amount of the draw from the ERA. He thought that the concept of

inflation proofing was not a huge consideration, as there was no great conceptual difference between the two methods. He did not think the difference in the bills was substantive, nor was the dividend amount. He considered that the bills were conceptually close, with the only significant difference being the degree of stability. He opined that the PFPA offered a more stable revenue stream than did SB 114, which was governor's intent. He thought the obvious question was if the PFPA a clearly better approach if stability was good.

Vice-Chair Micciche pointed out that the plans only worked as long as there was balance in the ERA to cover the draw. He clarified for the public that even though the POMV was based on the balance of the permanent fund, it was not possible to draw from the corpus.

Mr. Teal concurred, and stated that none of the plans he had seen raided the permanent fund, because it was constitutionally protected. The plans drew only from the earnings of the permanent fund, which was intended to be appropriated when it was set up.

[10:05:00 AM](#)

Vice-Chair Micciche thought that the term "sustainable draw" was being used loosely; and rather than being sustainable, it was merely a way to conserve savings as long as possible.

Mr. Teal agreed and reiterated that there was a big difference between a sustainable draw and a sustainable budget. The sustainable draw was too small to render a sustainable budget.

Vice-Chair Micciche thought a sustainable draw would be able to deliver the same quantity or percentage of draw in perpetuity, but neither bill provided such.

Co-Chair MacKinnon commented that a sustainable draw in the bill was predictable under the current financial circumstances in the state. She referred to the concept of a "glide path" so there was not an immediate crash in the economy or sharp decline in state services. She discussed spending scenarios using new data.

Vice-Chair Micciche referred to bringing down the cost of government and thought that additional revenue sources should be part of the discussion.

Co-Chair MacKinnon asserted that the committee had informed the public it would examine the budget, and consider the most impactful legislation to address the revenue shortfall.

Senator Bishop emphasized the need for a healthy oil, gas, and mining program.

Senator Olson discussed Mr. Teal's comment about a possible shortfall in the ERA and the eventuality of the dividend coming from the GF. He wondered if, considering future predictions, the model was sustainable. Mr. Teal thought that dividend issues would be perceptible when the state turned to a model.

[10:09:27 AM](#)

Mr. Teal turned to slide 14, "PFPA vs. POMV: Which is Better?":

1. A fixed draw is highly dependent on actually attaining the projected rates of return and projected oil revenue.
2. Those projections look forward 20 years--hence the need for review of sustainability of the draw.
3. We are not very good at projecting rates of return, and even worse at projecting oil revenue.
4. POMV looks backwards 5 years and the payout is based on actual events rather than on projections.
5. Ask yourself this question: Is your hindsight better than your foresight?
6. Lest that question appears to be one-sided, note that POMV fails the stability test--if royalties and production tax revenue jump \$4b and fill the deficit without the need for a payout, the payout still occurs and there would be a tendency, or at least a possibility, of spending the windfall.
7. Is there a hybrid that offers the comfort of hindsight offered by POMV and the stability of PFPA?

Mr. Teal referred to economist Dr. Scott Goldsmith, of the Institute of Social and Economic Research, University of Alaska Anchorage; and said many people considered his model

(in which spending could be approximately \$4.5 billion) as a sustainable plan. He reported that Dr. Goldsmith had testified in the Senate State Affairs committee that the model had used a year-old oil forecast, and under the fall forecast the same calculations showed a sustainable level of spending closer to \$2.7 billion.

Co-Chair MacKinnon asked about the lowest dividend that had been paid to residents. Mr. Teal did not recall, and referred to a graph within the governor's proposal that showed dividends over the years and reflected the volatility and low dividends in the early years of the fund.

Mr. Teal continued to discuss slide 14, and stated that the projections were critical. He compared that the PFFPA looked forward 20 years and projected rates of return; while the POMV looked backwards 5 years, with a self-adjusting payout based on actual events rather than projects. He commented that he would much prefer to consider historical earnings rather than projected earnings. He did not want his comment to be perceived as being entirely in favor of the approach of SB 114, and reminded the committee that the governor did not take the POMV approach because he considered that it failed the stability test. He stated that if the price of oil spiked in the short term, the state would continue to get the payout even if the oil revenues filled the deficit. He mused that a payout on top of other revenue would possibly be spent rather than saved. He questioned if there was some way to combine the two approaches to take advantage of the hindsight of POMV, and the stability of the PFFPA.

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Co-Chair MacKinnon asked about when Alaska's Clear and Equitable Share (ACES) tax and progressivity were in effect and wondered if during that time the state had spent more than it saved. Mr. Teal answered in the negative, and recounted that there had been a zero balance in the SBR, and the state had owed over \$5 billion to the CBR. The \$5 billion was repaid and the fund balance had been built up, as well as a substantial balance in the SBR. He had not compared how much was saved with how much was spent during the years in question.

Co-Chair MacKinnon considered that the state had saved more than the growth in government. She believed that in times of surplus, past legislatures had saved more and contributed to the permanent fund corpus. She wanted to retrospectively thank the members that had made the choice to save while in a time of surplus.

Senator Olson stated that he had been on the Senate Finance Committee during the time being discussed. He furthered that 16 years previously the CBR had been down to nearly \$2 billion, and the legislature had built it up to \$17 billion. He agreed with Co-Chair MacKinnon regarding past legislatures putting funds in to savings.

Co-Chair MacKinnon recognized that everyone was working together, and thought that when blame was placed it took energy away from solving the problem.

Mr. Teal clarified that he was not trying to blame anyone. He made the point that the governor thought stability was important because there was a tendency to spend money when it was available, and therefore favored a sustainable, fixed payout and tried to avoid volatility in the GF. He asserted that was the reason the governor did not choose the POMV option.

[10:17:55 AM](#)

Senator Bishop recalled that Mr. Teal had testified in front of the committee a year previously. He mentioned spikes in spending and catching up on deferred maintenance with capital projects. He wanted to see the legislature and the administration come together and implement a sustainable plan to drive down deferred maintenance. He thought deferred maintenance of state assets had been a major cost driver in state budgets in times of economic health.

Co-Chair MacKinnon associated herself with Senator Bishop's comments and furthered that there had been a "spike and spend" as well as a gradual increase on operating budget items. She thought the largest volatility was when there was more funding available.

Vice-Chair Micciche largely agreed with the two previous speakers, and suggested that before catching up on deferred maintenance it was important to analyze which state

services the state could afford to continue delivering. Additionally he wondered which assets attached to the services should no longer be owned by the state.

Senator Dunleavy commented that graphs had shown that in times of greater income, the state had spent more and saved more.

[10:20:06 AM](#)

Co-Chair Kelly commented on the large investment into the unfunded liability for the Public Employees' Retirement System (PERS) and the Teachers Retirement System (TRS), which had accounted for a large portion of the spikes in past spending. He thought that accounting for inflation and population growth, the previous year's spending was the lowest since 2003. He thought that the legislature was at the point where it must interact with the administration differently. He discussed unallocated reductions and suggested that the governor had been unwilling to support them. He considered that the legislature could be likened to a board of directors, and it was the responsibility of the executive to manage the administration. He thought it was time to make further reductions in spending, including unallocated reductions. He emphasized the need for the administration to specify areas for cuts. He referred to the federal government blocking access to oil production and development in the state.

[10:24:26 AM](#)

Mr. Teal referenced slide 16, "Decision Points," which depicted a cash flow diagram with decision points indicated numerically on cash flow the diagram.

Mr. Teal reviewed slide 17, "Decision Points":

1. Do you direct volatile revenue to the GF or the ERA? Trade-off: fixed draw vs. "good enough" stability. This choice is made once you decide on #4.
2. Reduce dedication to 25%? Do you save while harvesting? Not a critical decision--it affects 10s of millions vs. 100s of millions under decision #3.
3. Inflation Proofing--Do you want greater protection of the permanent fund if it increases the risk of

failing to have the cash needed for a payout? Once money is in the PF, it can never be spent, while money in the ERA can be spent any time.

4. The payout is your first critical decision. Trade-off: do you favor a forward-looking, manual adjusting fixed draw that promises greater stability, or a backward-looking, self-adjusting draw that offers less stability? Spending restraint under high oil prices is a key element of PFPA. But POMV's weakness in that area can be overcome by limiting the payout to prior year appropriations (plus some room for growth, if desired). The POMV payout can be turned into a spending limit.

If you chose a variable draw, what payout rate will you choose? Trade-off: a lower rate means less money now, but it increases growth of the ERA and other reserves so could mean larger payouts in the future. 4.5% of \$70b is greater than 5% of \$60b.

Mr. Teal noted that the Senate State Affairs Committee had incorporated a spending limit into SB 114, and opined that there were other limits that were considered that may have been more effective.

Co-Chair MacKinnon referred to the spending limit that had been discussed the previous day, and highlighted a question by Senator Hoffman regarding the combined capital and operating budgets. She mentioned greater spending on deferred maintenance as discussed by Senator Bishop, as well as investing with one-time funds for a one-time project.

Mr. Teal stated that there were many considerations, and many types of limits to implement by percentage or otherwise.

Co-Chair MacKinnon considered the bills before the committee, and wondered if they would prevent a large project (such as the AKLNG project) from going forward.

Mr. Teal thought it was possible.

[10:28:30 AM](#)

Mr. Teal continued to discuss slide 17. He read from slide 18, which was a continuation of slide 17:

But a lower payout rate means larger deficits in the short-term—do you want to reduce spending or increase taxes to fill the gap, or do you have sufficient reserves to fill deficits? The longer you wait to act, the lower your reserves and the higher the risk of failure.

Mr. Teal explained that the choice between types of draw would determine inter-generational equity.

Co-Chair MacKinnon referenced a conversation related to a challenge to the state's ability to pay out a dividend. She discussed the method of calculating the amount of a dividend, and referred to negative earnings. She thought that under the current dividend formula, there had been one month in which the PFD was not scheduled to be paid. She recalled that the market has risen enough during the month that it triggered the formula to be able to provide a dividend.

Mr. Teal affirmed that in 2009, the permanent fund had suffered large losses and had almost been unable to pay a dividend. All of the losses had diminished the ERA, where the earnings accumulated. He stated that under the current formula it was possible that the state would not be able to pay dividends. He referred to statutory net income, and stated that it did not take market recovery to pay out the dividend. The permanent fund could have sold stock and earned positive gains in order to be able to pay dividends.

Co-Chair MacKinnon commented that the current administration was relatively new, and perhaps had not observed the long-term volatility of state finances. She thought the fixed draw had its own set of circumstances that could cause problems.

Mr. Teal recalled that when the state had difficulty paying dividends it was during high oil prices with high revenue for the state. He pointed out that conversely, the state had been paying record high dividends when the state's fiscal health was diminished. He emphasized that the current method of calculating dividends did not reflect the fiscal health of the state.

[10:34:13 AM](#)

Senator Bishop quipped that a Fortune 500 company would not use the same method and expect to stay in business. Mr. Teal termed the circumstance "record dividends with record losses."

Mr. Teal continued discussing slide 18:

5. Second critical choice is the amount and source of dividends. This applies to #5 and #6. Recall that IP can never be spent, but it spins off spendable earnings in the future. Once money is spent on dividends, it can never be recovered. Trade-off: higher dividends mean lower reserves and greater risk of unfillable deficits (or higher taxes or reduced spending on things other than dividends). This trade-off exists regardless of the source of dividends. Another trade-off: dividends and the economy.

6. The source of money for dividends may not be a critical choice in terms of maintaining healthy reserves, but it is a decision you will need to debate. Dividends now reflect the health of financial markets rather than the fiscal health of the state. Basing dividends on royalties (PFPA and SB114) would bring in short-term fiscal health, while basing dividends on reserve balances (HB224) would bring in long-term fiscal health. Why not do all three? That would provide a stable, guaranteed dividend with a kicker.

7. And 8. Deciding what to do with money that remains after the deficit is filled and dividends are paid is hardly worth talking about. You can set up rules or leave that decision to future legislatures.

Mr. Teal displayed a model that depicted four interactive graphs (copy not on file). [The graphs represented model projections of PFDs, budget reserves, and the permanent fund]. He addressed the first graph in the upper left. He discussed how different draw scenarios would affect the graph being examined. He showed a graph depicting the current cash flow model, which showed an unplanned draw from the ERA in red. He noted that the model was based on the assumption that if revenue did not reach expenditures, funds would be drawn from the CBR to fill the deficit. The model showed the CBR completely expended in FY 18. He continued that when the CBR was gone, the state would turn

to the ERA to draw funds. If the state continued to spend in the same fashion, it would expend the ERA. He noted that there was a large corpus in the ERA, which would still spin off earnings available to spend after inflation-proofing and dividends.

[10:39:00 AM](#)

Mr. Teal postulated that thought the easiest way to evaluate a plan was to examine reserves.

Co-Chair Kelly asked about values on the models. Mr. Teal explained that the point of the model was the ability to change variables. He explained that if reserves were declining, it meant the state had a structural deficit, which would eventually lead to a broken plan. He discussed the second graph, "Budget Reserves" and referred back to the first graph, outlining a scenario under which the state would have no choice but to increase revenue or reduce expenditures. He discussed the timeline of the status quo scenario, and stated that reserves would be gone in FY 22.

Mr. Teal clarified that the numbers represented were gleaned from the fall forecast. He updated the interactive graph on budget reserves to reflect the recently published spring forecast, which showed the diminishment of the CBR by FY 17, as well as the diminishment of the ERA by FY 20.

Co-Chair MacKinnon asked if the model projected a status quo budget reduced by approximately \$500 million.

Mr. Teal adjusted the model and stated that if the committee passed an operating budget similar to one that the House and Senate had adopted and cut \$500 million, the reserves did not increase for very long.

Co-Chair MacKinnon asked if the projections reflected the one percent drop in interest rate. Mr. Teal answered in the negative, and adjusted the graph to reflect the drop in interest rate. The graph showed exhaustion of reserves and expenditures substantially higher with no reserves to fill the deficit. He reiterated that the choice was to cut to the level of revenue, or raise revenue to the level of expenditures.

[10:44:30 AM](#)

Vice-Chair Micciche asked if the hypothetical scenario included a \$500 million cut. Mr. Teal verified that the current variables included the proposed \$500 million in cuts and the spring revenue forecast.

Co-Chair MacKinnon drew attention to the idea of moving management of the CBR to the permanent fund. She stated that there was a rate of return for the CBR required by statutes. She wondered if co-locating management of the CBR with the permanent fund would increase efficiencies and garner a higher rate of return. She noted that the move would take a structural change in statute.

Senator Hoffman asked for a demonstration of how the state's finances would appear if \$2 billion was hypothetically cut from the budget.

Mr. Teal adjusted the interactive graph to reflect a \$1 billion cut from the FY 17 governor's amended budget, which showed budget reserves extending further.

Co-Chair MacKinnon asked Mr. Teal to adjust the graphs to view the governor's proposal [SB 128] under the spring forecast.

Mr. Teal stated that the governor's plan and SB 114 both accomplished the goal of providing a "glide path" by eliminating inflation-proofing and reducing dividends. He stated that if the state stopped inflation-proofing, reserves were extended but did not solve the fiscal problem. If the state were to stop dividends, then there would be a sustainable budget. He viewed the model with the spring forecast. He stated that re-plumbing was not necessary to accomplish what was demonstrated. The legislature could eliminate inflation-proofing and eliminate dividends, which he acknowledged was complex.

[10:50:10 AM](#)

Mr. Teal continued to examine the interactive models reflecting the governor's plan, which included dividends based on 50 percent of royalties and a fixed draw of \$3.3 billion. He observed that revenue had declined below \$2 billion. Even under the much lower spring forecast, the \$3.3 draw gave the state a glide path, much lower dividends, continued CBR draws, and unplanned draws from

the ERA. Mr. Teal continued inserting variables such as reduction of long-term interest rates.

Mr. Teal examined the models reflecting SB 114. He offered to return to the committee or meet with individual members to review the model.

Co-Chair MacKinnon stated that the committee would be happy to invite Mr. Teal back for further testimony, and members could meet with him individually to gain further understanding of the models. She referred to the decision points he had discussed earlier.

Co-Chair MacKinnon discussed the public testimony that would happen later in the day. She handed the gavel to Senator Micciche.

[10:54:02 AM](#)

RECESSED

[1:35:21 PM](#)

RECONVENED

Vice-Chair Micciche discussed the afternoon schedule. He recognized former Senator John Binkley, former Lieutenant Governor Fran Ulmer, former Representative Tom Brice, and Senator Dennis Egan in the gallery.

^PUBLIC TESTIMONY: JUNEAU

[1:36:49 PM](#)

FRAN ULMER, SELF, JUNEAU, testified about the fiscal gap facing the state. She was testifying as a long-time state resident, and recounted that her first job in Alaska was working as an attorney for the legislature. She continued that she had worked for former Governor Jay Hammond, and was present during the time the permanent fund was created. She reminded the committee that when the permanent fund was being formed there had been a great deal of discussion concerning the eventuality of oil revenues declining, and thought it was important for the legislature to provide a long-term fiscal regime that would give comfort to businesses and families in Alaska. She shared that the previous day the Rasmuson Foundation had called a meeting of all former governors and lieutenant governors of the state to discuss the fiscal gap and see if the group could

make a recommendation for action during the legislative session. She recounted that seven bi-partisan attendees were present and able to reach consensus. She read from a consensus statement that was a result of the meeting (copy on file):

The current state deficit is the most significant in state history.

1. We do not have enough revenue to pay for the government we currently have. We have to do some significant changing in how we do business.
2. We need a combination of cuts and new revenues.
3. The Permanent Fund was created to help pay for essential state services when oil declined.
4. Everybody benefits from state services and everybody should help pay for them. It is important for people to help pay for governments so they are connected to how government funds are spent.
5. We can protect the Permanent Fund dividend for the long term if we commit to use a share of Permanent Fund earnings to make a significant reduction in the deficit.
6. Making decisions today to adopt a sustainable, balanced budget is essential. The longer we wait, the fewer options we have.

Ms. Ulmer relayed that the statement was signed by former Governor Tony Knowles, former Governor Bill Sheffield, former Governor Frank Murkowski, former Lt. Governor Mead Treadwell, former Lt. Governor Loren Leman, former Lt. Governor Stephen McAlpine, and herself. She relayed that former Lieutenant Governor Mead Treadwell had intended to join her in testifying but had been unable to attend in person and would call in. She asserted that the consensus statement was a bipartisan action. She thought it was incredibly important for action to be taken in the current session.

[1:42:09 PM](#)

FRANK BERGSTROM, SELF, JUNEAU, recounted that he had received his PFD all the years he had lived in Alaska. He expressed that the growth of the permanent fund was wonderful and considered that it should be used to pay for government.

[1:43:42 PM](#)

MARY BECKER, MAYOR, CITY AND BOROUGH OF JUNEAU, indicated that the City of Juneau had passed a resolution (copy on file) that supported using the permanent fund earnings to help create a sustainable balanced budget.

Vice-Chair Micciche thanked Ms. Becker for serving as Acting Mayor for the City of Juneau.

[1:44:51 PM](#)

ERIN WALKER TOLLES, EXECUTIVE DIRECTOR, CATHOLIC COMMUNITY SERVICES, JUNEAU, testified in support of using permanent fund earnings to fund state government. She discussed the function of Catholic Community Services (CCS), and noted that its funding was a combination of federal, tribal, and city funds. She recounted that the agency was feeling the effects of the recent budget cuts and preparing to receive less money from communities. She stated that the board of directors of CCS had passed a resolution (copy on file) urging the committee to use earnings from the permanent fund to fund the budget. She noted that CCS had already had to cut days of some of its senior centers in Southeast Alaska. She discussed the impact of the cuts on elders, families, and children.

[1:47:09 PM](#)

BILL CORBUS, SELF, JUNEAU, testified in support of using the ERA to help bridge the state's deficit. He relayed that he had been following SB 114 and SB 128 through the committee process and thought he was up to date on all the changes to the bills. He was in support of using the permanent fund earnings reserve to bridge the fiscal gap. He thought the funds were the most important component that the state had at its disposal to make up the difference between state spending and state revenue. He was concerned that the cash flow that came from the statutory plan for using the ERA plus the new dividend plan were adequate so that remaining funds (spending cuts and taxes) were realistically able to bridge the fiscal gap. He emphasized his support for using the ERA, and particularly that the change be accomplished within the current year.

[1:49:31 PM](#)

TOM BRICE, SELF, JUNEAU, testified in favor of SB 114 and SB 128. He referred to October 2, 2014; which was the last day the price of oil was above \$90/bbl. He referred to having experienced a similar budget situation in the 1990s, and thought the decisions the legislature were faced with were difficult. He pointed out the substantial difference in oil production between the two time periods. He thought the governor's approach was a cornerstone of how to solve state fiscal issues without massive taxes or massive further cuts. He supported using renewable resources (finances) to cover the cost of what oil previously funded, and thought the bills would accomplish the task.

[1:51:59 PM](#)

JOHN BINKLEY, SELF, JUNEAU, testified in favor of utilizing a portion of permanent fund earnings to pay for state government. He professed that his grandparents came to Alaska in the late 1800s, and had participated in the gold rush. His parents had worked through the depression era, and worked in Alaska during World War II. He discussed the pre-oil economies and the opportunities in the 1970s, and his families business. He asserted that his generation had greatly benefitted from the oil development in the state. He emphasized the importance for the state to set a course that would benefit future generations, to include a sustainable level of government that provided an adequate level of services to the people of Alaska. He supported using a portion of the permanent fund earnings. He expressed support and praise for the way the legislature had conducted itself while approaching the fiscal problems facing the state recently.

[1:56:36 PM](#)

Senator Bishop asked Mr. Binkley if he still had an airplane. Mr. Binkley answered in the negative.

[1:57:22 PM](#)

DON ETHERIDGE, ALASKA AFL-CIO, JUNEAU, testified in support of utilizing the permanent fund earnings to pay for state government. He recounted that the leadership of his organization had voted to fully support using the permanent fund earnings to fund state government.

[1:58:43 PM](#)

AT EASE

[1:59:25 PM](#)

RECONVENED

Vice-Chair Micciche informed the committee that there were no additional testifiers signed up, and the committee would take an at-ease.

[1:59:57 PM](#)

AT EASE

[2:17:08 PM](#)

RECONVENED

JAKE TODD, SELF, JUNEAU, discussed the possibility of paying taxes and the possibility of a decreased permanent fund. He relayed that he was a teacher of high school history. He had reviewed fiscal information and thought the problem seemed almost insurmountable. He encouraged bipartisan work on the budget. He thought that a combination of cuts, taxes, diminished PFDs, and fewer infrastructure projects could help solve the budget gap.

^PUBLIC TESTIMONY: BETHEL, NOME, KOTZEBUE, UNALASKA

[2:19:39 PM](#)

BEVERLY HOFFMAN, SELF, BETHEL (via teleconference), testified in support of capping the permanent fund at \$1000, creating an PFD opt-out option for residents, and a state income tax. She expressed concern about the budget situation. She discussed state employee wages and reported that non-resident wages had increased. She supported using a portion of the permanent fund earnings. She supported cuts to government, with the exception of education and health programs.

[2:22:48 PM](#)

REYNE ATHANS, SELF, BETHEL (via teleconference), testified in support of capping the permanent fund. She relayed that she had originally moved to Bethel as a teacher, and had worked in the cultural center at the University. She echoed the comments of the previous speaker and encouraged the committee to work for compromise. She supported a cap and a floor on the PFD. She thought funds above a certain amount

should be dedicated to education and public services. She supported taxation in the form of a straight fee by percentage.

[2:24:59 PM](#)

MIKE MARTZ, SELF, BETHEL (via teleconference), spoke in favor of using permanent fund earnings. He stated that he supported a reasonable method of using the permanent fund earnings, and supported a PFD floor of \$1000 as contained in SB 114. He thought citizens should pay for state programs, and supported reducing the PFD or the institution of an income tax. He considered that repealing the income tax had been a mistake, and thought that non-resident workers should be taxed along with residents of the state.

[2:27:34 PM](#)

SUE STEINACHER, SELF, NOME (via teleconference), testified in support of structuring the permanent fund in order to provide greater dividends. She spoke in support of an income tax. She thought that changing the PFD disproportionately affected the poor, particularly in rural areas of the state. She thought that lowering or abolishing the PFD was unconscionable unless an income tax was instituted first. She discussed taxation of non-resident workers. She did not support a state sales tax. She discussed the cost disparity between rural and urban Alaska.

Vice-Chair Micciche observed that there were no additional people signed up for public testimony at this time.

[2:30:53 PM](#)

AT EASE

[3:06:44 PM](#)

RECONVENED

^PUBLIC TESTIMONY: BARROW, TOK, DELTA JUNCTION

[3:06:44 PM](#)

Vice-Chair Micciche reconvened public testimony. Since there were no callers online he invited a person from the audience to testify.

3:07:00 PM

LAURA STATS, SELF, JUNEAU, indicated she had been watching committee proceedings online. She remembered that Senator Murkowski had advised Alaskans to be aware of what was happening with the budget. Ms. Stats encouraged members of the committee to be bold and brave with their choices. She believed that permanent fund earnings should be used to pay for government rather than the corpus. She also supported an income tax of 1.5 percent to 2 percent. She opined that the public looked to government to provide a strong education system and health and welfare services for the vulnerable. She wanted to see people remain in Alaska. She believed people had been fortunate to receive a dividend and discouraged bringing a vote before the public because of the complexity of the issue. She thanked committee members for their time.

Vice-Chair Micciche indicated that the committee would resume public testimony at 3:30 pm.

3:11:26 PM

AT EASE

3:36:03 PM

RECONVENED

^PUBLIC TESTIMONY: KETCHIKAN, WRANGELL, PETERSBURG

3:36:24 PM

JULIE DECKER, SELF, WRANGELL (via teleconference), testified in support of some type of restructuring of the permanent fund earnings, for a smaller dividend payment, and using the earnings to fund state government. She had been a resident of Wrangell for over 20 years. Given all of the information she had been listening to, which was provided by the administration and the Rasmuson Foundation, she supported four actions. She supported additional cuts in the range of about 10 percent across the board. As a business owner, she thought 10 percent was manageable. She also supported something like SB 114 or SB 128. She encouraged the implementation of an income tax and a revision of oil tax credits. She urged legislators to take action. She thanked the committee.

Vice-Chair Micciche complimented Ms. Decker for her detailed testimony.

[3:39:39 PM](#)

DAVID OTNESS, SELF, CORDOVA (via teleconference), mentioned seeing a pattern in wanting to use the permanent fund at times where oil prices were low. He believed the permanent fund was sacred and should be kept intact as a trust for future Alaskans. He discouraged a cap on the dividend and encouraged an income tax rather than subsidizing the economy at an unsustainable level. He also encouraged the revision of oil tax credits. He hoped the legislature would hold off getting into the permanent fund. He thought there was room for further discussion. He thanked the committee.

[3:43:01 PM](#)

^PUBLIC TESTIMONY: SITKA, CORDOVA, VALDEZ

[3:43:01 PM](#)

Vice-Chair Micciche indicated there were no testifiers online. The committee would check in to see if anyone was online at 4:00 pm and if not would remain at ease until 4:15 pm.

[3:43:40 PM](#)

AT EASE

[4:19:25 PM](#)

RECONVENED

^PUBLIC TESTIMONY: STATEWIDE TELECONFERENCE - OFFNET SITES

[4:19:58 PM](#)

LYNETTE CLARK, SELF, FAIRBANKS (via teleconference), spoke against both pieces of education. She remarked that Senator Coghill had declared that the current economy was in flux. She urged the committee to table the bill until the following session. She felt that the three previous legislatures were the reason for the current fiscal crisis. She remarked that the permanent fund should not be used to pay for the spending enacted by previous legislatures.

[4:22:29 PM](#)

GLEN MARUNDE, SELF, NORTHWAY (via teleconference), shared that he had received every PFD check. He spoke in support of both pieces of legislation. He felt that the state was able to pay for the state services.

[4:23:23 PM](#)

DAN APTED, SELF, ANCHORAGE (via teleconference), testified against both pieces of legislation. He felt that that the proposal was a regressive tax. He urged the committee to offer an income tax. He felt that eliminating the PFD would be detrimental to the most vulnerable residents of the state. He offered the idea of an increased property tax. He also stated that the out of state fishermen should be taxed.

[4:25:32 PM](#)

JANET MCCULLOUGH, SELF, PALMER (via teleconference), spoke against both pieces of legislation. She felt that the bills would do harm to Alaska's economy. She shared that her family used the PFD to pay for medical costs and increased heating costs. She felt that the state spending should be cut further before there was a consideration for cutting the PFD to instituting an income tax.

[4:26:57 PM](#)

BERNIE HOFFMAN, SELF, FAIRBANKS (via teleconference), testified against SB 114 and SB 128. She mentioned a town hall meeting she had attended. She felt that the legislators were not listening to Alaskans, and felt that Alaskans wanted a state income tax. She listed her ideas to balance the budget: institute a 5 percent state income tax; repeal SB 21; make 20 percent cuts across the board; institute sales tax with exemptions on food, healthcare, prescriptions, and water; double taxes on cigarettes and alcohol; triple taxes on gasoline; freeze the Susitna Dam project and the Knik road project; and tap the permanent fund earnings only for education. She suggested putting triggers in place for reductions of the aforementioned measures in the event that the price of oil went up again. She reminded the committee to listen to Alaskans.

[4:28:42 PM](#)

JAMES SQUYRES, SELF, RURAL DELTANA (via teleconference), testified against SB 114 and SB 128. He felt that the budget should be reduced further. He felt there was already substantial state income. He did not believe that the earnings reserve would be depleted by 2020. He discussed inflation proofing.

[4:31:00 PM](#)

MIKE SWAIN, SELF, ANCHORAGE (via teleconference), testified against both pieces of legislation. He stressed that the PFD had contributed to a significant portion of his income. He mentioned the concept of sovereign wealth, and discussed the configuration of the permanent fund and its earnings. He thought there needed to be separation between the legislature and the activities of the PFC. He thought the legislature could utilize the POMV model, and did not think using portions of the fund would solve the budget problem. He did not want the PFC to appear as an arm of the state's government.

[4:33:58 PM](#)

ED MARTIN, SELF, HAWAII (via teleconference), felt that the government had failed to utilize revenue from natural resources. He opined that taxation was nothing more than the redistribution of wealth, and did not think the concept of taxation was a value of the Republican Party. He did not support changing the PFD. He proposed a plan to include land vouchers for all Alaskans. He mentioned current recall efforts. He discussed the Alaska constitution and the original description of the PFD. He was opposed to using the permanent fund to fund government.

[4:38:22 PM](#)

ROSS MULLINS, SELF, CORDOVA (via teleconference), felt that the bills were a good compromise to sustain state government. He stated that he was 80 years old, and he had lived in Cordova since 1963. He felt that cutting a way to fiscal balance would have significant impacts on all of the services that Alaskans had come to rely on. He thought the bills offered a good compromise to help support state government. He felt that continuing the growth of the permanent fund corpus would allow prosperity in the future. He felt that continued cuts were imprudent. He stressed that the people that came to Alaska to work should be

subject to an income tax. He did not support the creation of a state sales tax. He thought a state income tax would be more progressive than a sales tax. He thought a compromise could be reached between the plans laid out in the two bills.

4:43:08 PM

GEORGE PIERCE, SELF, KASILOF (via teleconference), spoke against both pieces of legislation, but felt that SB 128 was the better of the two. He remarked that former testifiers had spoken to some empty seats in the room. He stressed that the PFD was the only money that he received from the sale of the state's resources. He felt that many of the large state projects should be cut such as the Knik Arm Bridge and the Juneau Access Road. He felt that the oil tax credits should be eliminated. He urged the committee to cut credits to corporations. He felt that the state should not fund nonprofits. He opposed the state government's use of savings to fund state government. He felt that there should be a reorganization of oil taxes and credits.

Vice-Chair Micciche asked Mr. Pierce to finish his testimony. Mr. Pierce urged the committee to leave the permanent fund alone.

4:47:02 PM

TOM LAKOSH, SELF, ANCHORAGE (via teleconference), testified against the bills. He echoed the comments of the previous testifier. He thought there would be a constitutional challenge to the proposed use of the PF. He felt that there should be a corporate income tax, a carbon tax, a personal income tax, and a seasonal income tax. He felt that the PFD should remain intact or be increased. He stressed that the state should diversify its economy, and felt that the PFD diversified the state's economy. He suggested distribution of the PFD on a debit card.

4:50:16 PM

MEAD TREADWELL, SELF, ANCHORAGE (via teleconference), testified in support of the bills. He shared that he had recently attended a meeting of former governors and former lieutenant governors with the Rasmuson Foundation, who had developed a six-point statement (copy on file). He highlighted that the group was bipartisan and had varying

viewpoints. He supported maintaining the PFD while utilizing permanent fund earnings. He testified against new taxes for the state. He stressed that there was not enough revenue to fund the current government.

Former Lt. Governor Treadwell continued, and felt that the permanent fund was created to pay for state services and help to pay for government. He believed that the permanent fund needed to be protected for the long term. He remarked that the legislature must adopt a reasonable and balanced budget. He highlighted that everyone benefitted from state services, therefore everyone should help pay for them. He thought it was important for individuals to help pay for government so that they were connected to how government funds were spent. He thought the approach of SB 114 was an important step. He listed the attendees of the meeting, and thought that there had been a general consensus. He referred to a graph shown by former Governor Frank Murkowski, depicting the growth of the state GF budget. He thought new taxes could have a damaging effect on the economy that was not fully understood. He thought that using the permanent fund earnings for inflation proofing, a PFD, and supporting the state budget was a fair approach to take.

[4:56:03 PM](#)

AT EASE

[5:18:02 PM](#)

RECONVENED

Vice-Chair Micciche discussed the following day's agenda.

Senator Bishop thanked the individuals who testified. He remarked that public comments had an effect on the state process.

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

SB 128 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[5:19:27 PM](#)

The meeting was adjourned at 5:19 p.m.