

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

March 15, 2016

9:01 a.m.

MEMBERS PRESENT

Senator Bill Stoltze, Chair
Senator John Coghill, Vice Chair
Senator Charlie Huggins
Senator Lesil McGuire
Senator Bill Wielechowski

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE CONCURRENT RESOLUTION NO. 16

Urging the Governor to designate a location for a special session of the Twenty-Ninth Alaska State Legislature, if called after adjournment of the First Regular Session of the Twenty-Ninth Alaska State Legislature, that is in a community on the state's road system.

- HEARD & HELD

SPONSOR SUBSTITUTE FOR SENATE BILL NO. 114

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

- MOVED CSSSSB 114(STA) OUT OF COMMITTEE

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."

- MOVED SB 128 OUT OF COMMITTEE

SENATE JOINT RESOLUTION NO. 1

Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund, establishing the earnings reserve account, relating to the permanent fund dividend, and requiring the permanent fund dividend be at least equal to the amount that would be calculated under current law.

- MOVED SJR 1 OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: SCR 16

SHORT TITLE: SPECIAL SESSION TO BE HELD ON ROAD SYSTEM

SPONSOR(s): SENATOR(s) STOLTZE

04/18/15 (S) READ THE FIRST TIME - REFERRALS
04/18/15 (S) STA
03/15/16 (S) STA AT 9:00 AM BUTROVICH 205

BILL: SB 114

SHORT TITLE: PERM FUND: EARNINGS, DEPOSITS, ACCOUNTS

SPONSOR(s): SENATOR(s) MCGUIRE

04/18/15 (S) READ THE FIRST TIME - REFERRALS
04/18/15 (S) STA, FIN
02/01/16 (S) SPONSOR SUBSTITUTE INTRODUCED-REFERRALS
02/01/16 (S) STA, FIN
02/04/16 (S) STA AT 9:00 AM BUTROVICH 205
02/04/16 (S) Scheduled but Not Heard
02/09/16 (S) STA AT 9:00 AM BUTROVICH 205
02/09/16 (S) Heard & Held
02/09/16 (S) MINUTE(STA)
02/16/16 (S) STA AT 9:00 AM BUTROVICH 205
02/16/16 (S) Heard & Held
02/16/16 (S) MINUTE(STA)
02/16/16 (S) STA AT 6:00 PM BUTROVICH 205
02/16/16 (S) Heard & Held
02/16/16 (S) MINUTE(STA)
02/23/16 (S) STA AT 9:00 AM BUTROVICH 205
02/23/16 (S) Heard & Held
02/23/16 (S) MINUTE(STA)
03/10/16 (S) STA AT 8:30 AM BUTROVICH 205
03/10/16 (S) -- MEETING CANCELED --
03/15/16 (S) STA AT 9:00 AM BUTROVICH 205

BILL: SB 128

SHORT TITLE: PERM. FUND: DEPOSITS; DIVIDEND; EARNINGS
SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/19/16	(S)	READ THE FIRST TIME - REFERRALS
01/19/16	(S)	STA, FIN
01/26/16	(S)	STA AT 9:00 AM BUTROVICH 205
01/26/16	(S)	Heard & Held
01/26/16	(S)	MINUTE(STA)
01/28/16	(S)	STA AT 9:00 AM BUTROVICH 205
01/28/16	(S)	Heard & Held
01/28/16	(S)	MINUTE(STA)
02/02/16	(S)	STA AT 9:00 AM BUTROVICH 205
02/02/16	(S)	Heard & Held
02/02/16	(S)	MINUTE(STA)
02/04/16	(S)	STA AT 9:00 AM BUTROVICH 205
02/04/16	(S)	Heard & Held
02/04/16	(S)	MINUTE(STA)
02/04/16	(S)	STA AT 5:30 PM BUTROVICH 205
02/04/16	(S)	Heard & Held
02/04/16	(S)	MINUTE(STA)
02/11/16	(S)	STA AT 9:00 AM BUTROVICH 205
02/11/16	(S)	Heard & Held
02/11/16	(S)	MINUTE(STA)
02/23/16	(S)	STA AT 9:00 AM BUTROVICH 205
02/23/16	(S)	Heard & Held
02/23/16	(S)	MINUTE(STA)
03/10/16	(S)	STA AT 8:30 AM BUTROVICH 205
03/10/16	(S)	-- MEETING CANCELED --
03/15/16	(S)	STA AT 9:00 AM BUTROVICH 205

BILL: SJR 1

SHORT TITLE: CONST AM: GUARANTEE PERM FUND DIVIDEND
SPONSOR(s): WIELECHOWSKI

01/21/15	(S)	PREFILE RELEASED 1/9/15
01/21/15	(S)	READ THE FIRST TIME - REFERRALS
01/21/15	(S)	STA, JUD, FIN
02/23/16	(S)	STA AT 9:00 AM BUTROVICH 205
02/23/16	(S)	Heard & Held
02/23/16	(S)	MINUTE(STA)
03/03/16	(S)	STA AT 6:30 PM BUTROVICH 205
03/03/16	(S)	Heard & Held
03/03/16	(S)	MINUTE(STA)
03/15/16	(S)	STA AT 9:00 AM FAHRENKAMP 203

WITNESS REGISTER

BRANDON BREFCZYNSKI, Staff
Senator Stoltze
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Explained the committee substitute (CS) for SB 114.

JESSE LOGAN, Staff
Senator McGuire
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Addressed the CS for SB 114.

RYNNIEVA MOSS, Staff
Senator Coghill
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Explained Amendment 2 for SB 114.

RANDY HOFFBECK, Commissioner
Alaska Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Summarized and addressed questions regarding SB 128.

CRAIG W. RICHARDS, Attorney General
Alaska Department of Law
Juneau, Alaska

POSITION STATEMENT: Summarized and addressed questions regarding SB 128.

ACTION NARRATIVE

[9:01:11 AM](#)

CHAIR BILL STOLTZE called the Senate State Affairs Standing Committee meeting to order at 9:01 a.m. Present at the call to order were Senators Coghill, Huggins, McGuire, and Chair Stoltze.

SCR 16-SPECIAL SESSION TO BE HELD ON ROAD SYSTEM

[9:02:57 AM](#)

CHAIR STOLTZE announced the consideration of SCR 16.

SENATOR HUGGINS moved to adopt the committee substitute (CS) for SCR 16, version W, as the working document.

CHAIR STOLTZE objected for discussion purposes. He noted that he introduced SCR 16 at the end of last session in anticipation of a special session. He specified that he introduced the resolution due to the capitol's scheduled renovation in order to minimize increased cost to the state. He specified that the resolution only dealt with the current session for the 29th Legislature. He detailed that one of the reasons why he introduced the legislation as a resolution was due the governor saying that he would veto a capitol move, but he remarked that a governor could not veto a resolution. He asserted that SCR 16 was a way for the Legislature to express its constituents' point of view.

[9:03:22 AM](#)

SENATOR WIELECHOWSKI joined the committee meeting.

[9:04:44 AM](#)

CHAIR STOLTZE removed his objection. He announced that version W was adopted and SCR 16 would be held in committee.

SB 114-PERM FUND: EARNINGS, DEPOSITS, ACCOUNTS

[9:05:08 AM](#)

CHAIR STOLTZE announced the consideration of SB 114.

[9:05:14 AM](#)

At ease.

[9:06:26 AM](#)

CHAIR STOLTZE called the committee back to order and noted that there was a proposed committee substitute (CS).

SENATOR MCGUIRE moved that the CS for sponsor substitute (SS) SB 114, version U, be brought before the committee.

CHAIR STOLTZE objected for discussion purposes. He explained that the CS was developed by Senator McGuire with one revision from his office, pertaining to revenue limitation.

[9:07:28 AM](#)

BRANDON BREFCZYNSKI, Staff, Senator Stoltze, Alaska State Legislature, Juneau, Alaska, stated that the committee made only

one change aside from the sponsor's changes. He explained the committee's change as follows:

Page 2, line 28 through page 3, line 2. We are establishing a revenue limit based on production tax and royalties that exceed \$1 billion. For every dollar of production tax and royalties that exceeds \$1 billion, the annual Percentage of Market Value (POMV) draw will be reduced on a dollar-for-dollar basis.

SENATOR WIELECHOWSKI asked that an explanation be provided on the impact if \$2 billion in increased production occurred.

MR. BREFCZYNSKI specified as follows:

If the state would have received \$2 billion in production tax and royalties, you reduce your POMV draw by \$1 billion. Anything over \$1 billion the annual POMV draw is reduced on a dollar-for-dollar basis.

CHAIR STOLTZE added as follows:

Spending limits themselves is really tough to implement and we've seen from other action you can do previous year appropriations and there's a lot of ways to alter the effectiveness of a spending limit. If all of the prognostications are wrong and oil rebounds, we don't want to put in a mechanism that would cause the ability to spend. Government has an intrinsic tendency to spend available money.

9:10:27 AM

JESSE LOGAN, Staff, Senator McGuire, Alaska State Legislature, Juneau, Alaska, addressed what the CS for SSSB 114 does as follows:

1. Establishes a revenue limit: Section 3.
2. Changes the POMV draw from 5 percent to 4.5 percent: Section 3. The change allows for a larger rate of growth for the Permanent Fund and greater payouts over time. Legislative Finance agreed with the approach.
3. Adds an inflation-proofing mechanism: Section 5, page 3, lines 20-23. Similar approach to the governor's bill in that if the POMV draw from the previous year is multiplied by 4, the difference in the Earnings Reserve Account (ERA) could be returned to the corpus for inflation proofing.

4. Establishes a review period: Section 7, page 4, lines 23-31. Allows the commissioner for the Department of Revenue to recommend adjustments in addition to providing a report in consultation with the Permanent Fund Corporation to the Legislature for evaluating asset sufficiency within the ERA.

MR. LOGAN added that several other small changes were made that entailed housekeeping measures regarding cash flow and timing. He noted that changes were done in consultation with the Permanent Fund Corporation.

[9:13:17 AM](#)

SENATOR MCGUIRE added that the amendments were the result of consultation with members of the House and Senate who actively spoke with their neighbors in addition to public testimony offered in the State Affairs Committee. She pointed out that Chair Stoltze's amendment to limit spending addressed a concern people had where the Permanent Fund Dividend (PFD) would be restructured, but the Legislature could go on a spending spree at some later point. She asserted that changing the POMV draw from 5 to 4.5 percent would provide for more sustainability. She opined that the POMV model would inflation-proof itself in addition to retaining the constitutional requirement for 25 percent of the royalties to go into the Permanent Fund itself. She noted that an additional provision was included for added inflation proofing to reflect times of growth. She said the review period was something that lawmakers had asked for in order to comeback and revisit the provisions in SB 114. She pointed out that SB 114 guaranteed a \$1000 PFD and noted that the intent was to provide a dividend that was sustainable. She added that Permanent Fund Corporation and its trustees were consulted to make sure all of the amendments were fully vetted.

CHAIR STOLTZE announced that Senator Coghill had an amendment to offer.

[9:15:49 AM](#)

SENATOR COGHILL moved Amendment 29-LS0883\U.2 ("U.2"), Gardner, 3/15/16.

AMENDMENT U.2

Page 2, lines 9 - 15:

Delete all material and insert:

****Sec. 2.** AS 37.13 is amended by adding a new section to read:

Sec. 37.13.015. Appropriations to the dividend fund.

(a) Following the calculation under AS 37.13.140(b), the legislature may appropriate to the dividend fund established in AS 43.23.045 the following amounts from the following funds:

(1) from the earnings reserve account established in AS 37.13.145,

(A) 15 percent of 21 percent of the sum of the net income of the fund determined under AS 37.13.140(a) for each of the last five fiscal years including the fiscal year just ended; and

(B) two percent of the market value of the constitutional budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) calculated on the last day of the fiscal year just ended; and

(2) from the general fund, 15 percent of the money deposited in the general fund during the fiscal year just ended from all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), federal mineral revenue sharing payments, and bonuses received by the state from mineral leases.

(b) Nothing in this section creates a dedicated fund."

Page 2, line 29:

Delete "the portion"

Insert "an amount equal to 85 percent"

[9:16:01 AM](#)

CHAIR STOLTZE objected for discussion purposes.

SENATOR COGHILL explained that the intent of the amendment was to exclude the dividend payment from the \$1 billion cap. He said the concept was essentially a hybrid plan for the PFD to be paid for by blending earnings from the Permanent Fund and royalties in addition to a small valuation from the Constitutional Budget Reserve (CBR). He explained that the current plan calls for the PFD to be paid primarily from the earnings of royalties, rents, and leases. He detailed that the concept's formulation would blend the following:

- 15 percent of the 21 percent sum of the net income from the ERA.
- 15 percent of the royalties, sales, and proceeds net shares of the oil and gas leases.
- 2 percent of the market value of the CBR.

SENATOR COGHILL said instead of guaranteeing a particular number, the PFD would be based on the health of the state. He detailed that people would feel the ebb and flow of the long term as well as the state's short term economic health. He revealed that he had David Teal, [Legislative Fiscal Analyst], review his concept and a \$200 million funding gap was projected, a number similar to the bill's original concept.

[9:19:20 AM](#)

CHAIR STOLTZE stated that he would continue his analysis, but remained unsure. He noted that the Senate Finance Committee would consider the bill as well.

SENATOR MCGUIRE offered her name as a co-sponsor to the amendment. She concurred that the amendment would also address concerns for creating a PFD that was based on future rents and royalties.

[9:22:54 AM](#)

RYNNIEVA MOSS, Staff, Senator John Coghill, Alaska State Legislature, Juneau, Alaska, explained that because 15 percent of royalties were already in the computation, the amendment removes the 15 percent of the royalties from the \$1 billion cap.

MR. LOGAN specified that the amendment restructured the payout for the PFD as follows:

1. Market's long term health: 15 percent value of the statutory net income of the earnings reserve ties to the long term health of the market. The last 34 dividends have been tied entirely to the value of the market and the amendment would have the PFD start to share some of the market value with the state's long and short term fiscal health.
2. Alaska's short-term fiscal health: 15 percent of royalties in the calculation would reflect the short-term fiscal health of the state.
3. Alaska's long-term fiscal health: the 2 percent of the CBR value would be the long-term fiscal health of the state.

MR. LOGAN summarized that the amendment was a three-dimensional concept that shared risk and benefit between the state and Alaska's residents.

[9:24:29 AM](#)

SENATOR WIELECHOWSKI asked that Mr. Logan review the payout numbers from the proposed dividend formula for 2016. He noted that the state paid out approximately \$1.4 billion in total dividends in 2015.

[9:26:24 AM](#)

MR. LOGAN answered that the PFD payout from the proposed formula would be \$700 million, resulting in an \$1100 dividend. He noted that the bill retained the \$1000 dividend floor.

SENATOR COGHILL explained that the amendment was put together prior to the \$1000 floor. He noted that the formula's projections show the dividend dipping under \$1000 by 2020. He detailed that downward pressure would occur when the Unrestricted General Fund (UGF) was above \$5 billion. He added that the CBR would be extended out at a steadier rate and the Permanent Fund balance would continue to rise. He stated that he would defer to Senate Finance for a decision on whether to retain the \$1000 floor.

MR. LOGAN pointed out that the modeling for the bill shows a rise in the FY17 budget because the dividend would be considered part of the overall budget.

[9:29:06 AM](#)

MS. MOSS addressed Senator Wielechowski's question and detailed that an \$1127 dividend would be paid out in 2016 from the proposed formula as follows:

- 15 percent earnings = \$618.
- 15 percent royalties = \$211.
- 2 percent CBR = \$298.
- Total = \$1127.

SENATOR WIELECHOWSKI asked how much the dividend would be under the bill as currently written versus the amended version.

MR. LOGAN answered that the bill would transition to a new formula in 2017 and the 2016 dividend exceeding \$2000 would not change. He explained that transitioning to the new formula in 2016 would result in an \$1100 or \$1200 dividend.

SENATOR WIELECHOWSKI noted that dividend projections dipped slightly below \$1000 in future years. He asked what dividends were projected to be into 2025.

MR. LOGAN answered that the dividends would be approximately the same, which was the reason the \$1000 floor was retained.

SENATOR MCGUIRE added that dividends could have gone as high as \$3000 or \$4000 under the current bill due to the formula's higher percentage of royalties; however, Alaskans expressed concern in the plan's volatility. She conceded that the proposed amendment would guarantee Alaskans with a more stable share of wealth.

SENATOR COGHILL reiterated that the modeling for the amendment did not contemplate a floor.

CHAIR STOLTZE announced that the Amendment U.2 would be set aside until later today.

[9:33:08 AM](#)

CHAIR STOLTZE moved Amendment 29-LS0833\U.1 ("U.1"), Gardner 3/14/16. He specified that the amendment deals with a sunset provision.

AMENDMENT U.1

Page 2, following line 8:

Insert a new bill section to read:

"* **Sec. 2.** AS 37.13.010(a), as amended by sec. 1 of this Act, is amended to read:

(a) Under art. IX, sec. 15, of the state constitution, there is established as a separate fund the Alaska permanent fund. The Alaska permanent fund consists of

(1) 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued on or before December 1, 1979, and 25 percent of all bonuses received by the state from mineral leases issued on or before February 15, 1980;

(2) 50 percent of all mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments received by the state from mineral leases issued after December 1, 1979, and 50 percent of all bonuses received by the state from mineral leases issued after February 15, 1980; and

(3) [(2)] any other money appropriated to or otherwise allocated by law or former law to the Alaska permanent fund."

Renumber the following bill sections accordingly.

Page 3, following line 5:

Insert a new bill section to read:

"* **Sec. 5.** AS 37.13.140, as amended by sec. 4 of this Act, is amended to read:

Sec. 37.13.140. Income. [(a)] Net income of the fund includes income of the earnings reserve account established under AS 37.13.145. **Net** [THE CORPORATION SHALL DETERMINE THE NET] income of the fund shall 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. Income [, EXCLUDING UNREALIZED GAINS OR LOSSES.

(b) THE CORPORATION SHALL DETERMINE THE AMOUNT AVAILABLE FOR DISTRIBUTION UNDER THIS SECTION, COMPUTED ANNUALLY FOR EACH FISCAL YEAR, FOLLOWING THE CONCLUSION OF THE FISCAL YEAR. THE AMOUNT] available for distribution [MAY NOT BE LESS THAN ZERO AND] equals **21** [FOUR AND ONE HALF] percent of the net income [AVERAGE MARKET VALUE] of the fund [, INCLUDING THE EARNINGS RESERVE ACCOUNT ESTABLISHED IN AS 37.13.145,] for the last five fiscal years, including [IMMEDIATELY PRECEDING] the fiscal year just ended, but may not exceed net income of the fund for the fiscal year just ended plus the balance in the earnings reserve account described in AS 37.13.145 [REDUCED BY THE PORTION OF PRODUCTION TAXES AND MINERAL LEASE RENTALS, ROYALTIES, ROYALTY SALE PROCEEDS, NET PROFIT SHARES UNDER AS 38.05.180(f) AND (g), FEDERAL MINERAL REVENUE SHARING PAYMENTS, AND BONUSES RECEIVED BY THE STATE FROM MINERAL

LEASES AND DEPOSITED INTO THE GENERAL FUND IN THE FISCAL YEAR JUST ENDED THAT EXCEEDS \$1,000,000,000]"

Renumber the following bill sections accordingly.

Page 3, following line 11:

Insert a new bill section to read:

"* **Sec. 7.** AS 37.13.145(a), as amended by sec. 6 of this Act, is amended to read:

(a) The earnings reserve account is established as a separate account in the fund. Income [EXCEPT FOR INCOME DEPOSITED INTO THE GENERAL FUND UNDER (e) OF THIS SECTION, INCOME] from the fund shall be deposited by the corporation into the account as soon as it is received. Money in the account shall be invested in investments authorized under AS 37.13.120."

Renumber the following bill sections accordingly.

Page 4, following line 2:

Insert a new bill section to read:

"**Sec. 9.** AS 37.13.145(c), as amended by sec. 8 of this Act, is amended to read:

(c) after the transfer under (b) of this section, the [THE] corporation shall [MAY] transfer from the earnings reserve account to the principal of the fund an amount sufficient to offset the effect of inflation on principal of the fund during that fiscal year. However, none of the amount transferred shall be applied to increase the value of that portion of the principal attributed to the settlement of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District) on July 1, 2004. The [ON JULY 1, THE] corporation shall calculate the amount to transfer to the principal under this subsection by

(1) computing the average of the monthly United States Consumer Price Index for all urban consumers for each of the two previous calendar years;

(2) computing the percentage change between the first and second calendar year average; and

(3) applying that rate to the value of the principal of the fund on the last day of the fiscal year just ended, including that portion of the principal attributed to the settlement of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District) [MULTIPLYING THE AMOUNT AVAILABLE FOR DISTRIBUTION FOR THE PREVIOUS FISCAL YEAR UNDER AS 37.13.140(b) BY FOUR AND SUBTRACTING THE PRODUCT OF THAT CALCULATION FROM THE BALANCE OF THE EARNINGS RESERVE ACCOUNT ON JUNE 30 OF THE PREVIOUS FISCAL YEAR]."

Page 4, following line 12:

Insert a new bill section to read:

"* **Sec. 11.** AS 37.13.145(d), as amended by sec. 10 of this Act, is amended to read:

(d) Notwithstanding **(b)** [(e)] of this section, income earned on money awarded in or received as a result of State v. Amerada Hess, et al., 1JU-77-847 Civ. (Superior Court, First Judicial District), including settlement, summary judgment, or adjustment to a royalty-in-kind contract that is tied to the outcome of this case, or interest earned on the money, or on the earnings of the money shall be treated in the same manner as other income of the Alaska permanent fund, except that it is not available for distribution to the dividend fund or for transfers to the **principal** [GENERAL FUND] under **(c)** [(e)] of this section, and shall be annually deposited into the Alaska capital income fund (AS 37.05.5650."

Renumber the following bill sections accordingly.

Page 4, following line 31:

Insert a new subsection to read:

"(h) At the end of each fiscal year, the corporation shall transfer from the earnings reserve account to the dividend fund established under AS 43.23.045, 50 percent of the income available for distribution under AS 37.13.140."

Page 5, following line 4:

Insert a new bill section to read:

"* **Sec. 14.** AS 37.13.300(c), as amended by sec. 13 of this Act, is amended to read:

(c) Net income from the mental health trust fund may not be included in the computation of net income [THE AMOUNT] available for distribution under AS 37.13.140 [AS 37.13.140(b)]."

Renumber the following bill sections accordingly.

Page 5, following line 11:

Insert a new bill section to read:

"* **Sec. 16.** AS 37.14.031(c), as amended by sec. 15 of this Act, is amended to read:

(c) The net income of the fund shall be determined [COMPUTED ANNUALLY] by the Alaska Permanent Fund Corporation in the same manner the corporation determines the net income of the Alaska Permanent Fund under AS 37.13.140 [AS OF THE LAST DAY OF THE FISCAL YEAR IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, EXCLUDING ANY UNREALIZED GAINS OR LOSSES]."

Renumber the following bill sections accordingly.

Page 6, following line 6:

Insert a new bill section to read:

"* **Sec. 18.** AS 43.23.025(a), as amended by sec. 17 of this Act, is amended to read:

(a) By October 1 of each year, the commissioner shall determine the value of each permanent fund dividend for that year by

(1) determining the total amount available for dividend payments, which equals

(A) the amount of income of the Alaska Permanent Fund transferred [APPROPRIATED] to the dividend fund under AS 37.13.145(h) [AS 37.13.015] during the current year;

(B) plus the unexpended and unobligated balances of prior fiscal year appropriations that lapse into the dividend fund under AS 43.23.045(d);

(C) less the amount necessary to pay prior year dividends from the dividend fund in the current year under AS 43.23.005(h), 43.23.021, and 43.23.055(3) and (7);

(D) less the amount necessary to pay dividends from the dividend fund due to eligible applicants who, as determined by the department, filed for a previous year's dividend by the filing deadline but who were not included in a previous year's dividend computation;

(E) less appropriations from the dividend fund during the current year, including amounts to pay costs of administering the dividend program and the held harmless provisions of AS 43.23.075;

(2) determining the number of individuals eligible to receive a dividend payment for the current year and the number of estates and successors eligible to receive a dividend payment for the current year under AS 43.23.005(h); and

(3) dividing the amount determined under (1) of this subsection by the amount determined under (2) of this subsection."

Renumber the following bill sections accordingly.

Page 6, following line 18:

Insert a new bill section to read:

"* **Sec. 21.** AS 43.23.045(d), as amended by sec. 20 of this Act, is amended to read:

(d) Unless specified otherwise in an appropriation act, the unexpended and unobligated balance of an appropriation to implement this chapter lapses into the dividend fund on June 30 of the fiscal year for which the appropriation was made and shall [MAY] be used in determining the amount of and paying the subsequent year's dividend as provided in AS 43.23.025(a)(1)(B)."

Renumber the following bill sections accordingly.

Page 6, following line 19:

Insert a new bill section to read:

"* **Sec. 23.** AS 37.13.015, 37.13.145(e), 37.13.145(f), 37.13.145(g); and AS 43.23.025(c) are repealed July 1, 2018."

Renumber the following bill sections accordingly.

Page 6, line 22:

Delete "sec. 10"

Insert "sec. 17"

Page 6, line 23:

Delete "sec. 11"

Insert "sec. 19"

Page 6, lines 23-24:

Delete "sec. 12"

Insert "sec. 20"

Page 6, line 26:

Delete "sec. 10 - 12"

Insert "secs. 17, 19, and 20"

Page 6, following line 30:

Insert a new bill section to read:

"* **Sec. 25.** The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSITION. (a) Notwithstanding AS 43.23.025(a), as amended by sec. 18 of this Act, and AS 43.23.045(c), as amended by sec. 21 of this Act, the commissioner of revenue shall determine the value of the permanent fund dividend distributed in 2018 under AS 37.13.015, AS 43.23.025(a), 43.23.025(c), and 43.23.045(d), as those sections read on the day before the effective date of secs. 18 and 21 of this Act.

(b) The commissioner of revenue and the Alaska Permanent Fund Corporation may adopt regulations, policies, and procedures necessary to implement AS 43.23.025(a), as

amended by sec. 18 of this Act, and AS 43.23.045(d), as amended by sec. 21 of this Act. The regulations, policies, or procedures may not take effect before the effective date of the law implemented by the regulation, policy, or procedure."

Page 7, lines 2 - 3:

Delete "secs. 1 - 14 of this Act take effect after July 1, 2016, secs. 1014"

Insert "secs. 1, 3, 4, 6, 8, 10, 12(e) - (g), 13, 15, 17, 19, 20, and 24 take effect after July 1, 2016, secs. 8, 10, 12(e) - (g), 13, 15, 17, 19, 20, and 24"

Page 7, following line 3:

Insert a new bill section to read:

"* **Sec. 27.** Sections 2, 5, 7, 9, 11, 12(h), 14, 16, 18, 21, and 23 of this Act take effect July 1, 2018."

Renumber the following bill sections accordingly.

Page 7, line 4:

Delete "Sections 14 and 15"

Insert "Sections 24 and 26"

Page 7, line 5:

Delete "sec 16"

Insert "secs. 27 and 28"

[9:33:36 AM](#)

SENATOR HUGGINS objected for discussion purposes.

CHAIR STOLTZE explained that Amendment U.1 would add a 2-year sunset provision to SB 114 and the legislation would be brought back for discussion. He noted that his preferred route was a public vote for the provision to be added to the constitution.

[9:35:02 AM](#)

CHAIR STOLTZE announced that SB 114 would be set aside and reconsidered when the committee reconvenes in the afternoon. [Amendments U.1 and U.2 were pending.]

SB 128-PERMANENT FUND: DEPOSITS; DIVIDEND; EARNINGS

[9:35:22 AM](#)

CHAIR STOLTZE announced the consideration of SB 128.

[9:35:55 AM](#)

RANDY HOFFBECK, Commissioner, Alaska Department of Revenue, Juneau, Alaska, thanked the committee and Senator McGuire for their efforts in putting forward a plan that would create a stable and durable fiscal plan for the State of Alaska. He opined that Alaskans were concerned about government's level of spending during high revenues and the importance of having spending accountability so that the state is dealing with a boom-and-bust economy.

[9:38:09 AM](#)

He asserted that the Alaska Permanent Fund Protection Act (APFPA) encapsulates the volatility within the Permanent Fund by putting the oil and gas tax with the royalty revenues into the Permanent Fund. He added that a secondary advantage was created where the lows within the system were taken out as well.

He stated that the current low-oil price environment necessitated stress testing the plan's revenue models with extreme scenarios in order to make sure goals were accomplished even in times that rarely occur. He revealed that the plan's modeling did survive the highs and lows of a commodity-based economy. He added that after a series of tests with thousands of iterations, the plan could sustainably draw \$3.3 billion from combining oil and gas revenues with investment returns on a sustained basis.

He reported that the private sector had expressed the need for government to stabilize its portion of the state's economic base. He conceded that after attempts to diversify the state's economy over the years, Alaska has two primary economic engines: resource development, the commodity side; and government spending, both state and federal. He remarked that there was very little that could be done on the commodity side of the equation, but the one thing that could be stabilized was government spending. He added that the private sector clearly stated their need for stability in order to make long-term

financial decisions and investments. He said the lows were taken out to address the private sector's difficulty in making long term commitments due to uncertainty.

[9:40:45 AM](#)

CHAIR STOLTZE asked how Commissioner Hoffbeck has responded to businesses that either support a smaller government or the sector dependent on government activity.

COMMISSIONER HOFFBECK answered that both discussions have occurred. He detailed that discussions have primarily been on government's size, followed by predictability and stability. He summarized that people want to pay for the right size of government, not excessive government.

CHAIR STOLTZE commented that predictability and stability were the most important parts and both were being impacted for the largest revenue producers.

[9:42:32 AM](#)

COMMISSIONER HOFFBECK answered correct.

He set forth that the APFPA was a good plan that worked by taking the volatility component out of the system. He asserted that thinking had to be different, dynamic, and immediate action was needed. He said the administration can suggest, but the Legislature had to make the choices. He asserted that big problems don't get easier by waiting.

He remarked that closing the \$3.5 billion to \$4 billion deficit in a year and a half, two legislative sessions, would be something that nobody really believed could be accomplished. He opined that even after the deficit was closed, the individual tax burden for Alaskans would still be one of the lowest in the nation. He detailed that the dividend would be protected, a dividend that no other state pays; the state's savings would continue to grow at least at the rate of inflation, if not greater; children's and grandchildren's future would be protected; most of the government's services that Alaskans have enjoyed over the years would be preserved; and money would be left to invest in the state's resources.

[9:46:31 AM](#)

SENATOR HUGGINS asked that Commissioner Hoffbeck summarize the five traits that he was looking for.

COMMISSIONER HOFFBECK summarized as follows:

1. Keep the individual tax burden as low as possible.
2. Preserve the dividend.
3. Preserve the Permanent Fund's corpus for future generations.
4. Retain as many essential government services as possible.
5. Have money available to support resource development.

[9:47:52 AM](#)

CRAIG W. RICHARDS, Attorney General, Alaska Department of Law, Juneau, Alaska, set forth that the governor's plan does three things as follows:

1. Places the volatile petroleum revenues, production tax and royalties directly into the Permanent Fund. Revenues from oil and gas are no longer large enough to sustain government.
2. Annually draws \$3.3 billion out of the Permanent Fund to the General Fund. All of the cash-flow streams would act as an annuity. Revenues from oil and gas are no longer large enough to sustain government.
3. Changes the dividend formulation from one based on a five-year average of half of the Permanent Fund earnings to a royalty formulation of half of royalties.

[9:50:40 AM](#)

CHAIR STOLTZE noted that Senator McGuire's plan was not to fill the whole gap with Permanent Fund earnings, but to provide a substantial gap. He opined that the governor's "annuity" approach may make the state dependent on just the payout.

ATTORNEY GENERAL RICHARDS replied that neither Senator McGuire's POMV approach under SB 114 nor the governor's plan could take enough out of the Permanent Fund to fully fund state government's \$4 billion budget.

CHAIR STOLTZE asked Attorney General Richards to verify that Attorney General Richards did not want to be misinterpreted that people could not be taxed enough.

ATTORNEY GENERAL RICHARDS clarified that Chair Stoltze's question was whether or not the administration was leaving to the Legislature the flexibility to budget how they want. He specified that the answer between SB 114 and the governor's plan was SB 114 annuitizes one type of wealth and the governor's plan annuitizes two types of wealth.

ATTORNEY GENERAL RICHARDS detailed that SB 114 takes a measure of the Permanent Fund's value, not its earnings, the actual cash flow, and takes the measured value and turns it into an annuity where "x" amount is taken out, but leaves the petroleum revenues' volatility in the General Fund.

He added that the third component was the gap that was not covered by the petroleum revenues and the Permanent Fund. He asserted that no one's plan was going to be able to close the gap because the petroleum revenues and the Permanent Fund were not big enough. He asserted that SB 114 annuitizes the Permanent Fund's earnings. He pointed out that the administration's plan does both the Permanent Fund's earnings and the petroleum revenues to provide more stability than just annuitizing the Permanent Fund earnings themselves. He reiterated that both plans only get part of the way there, which leaves the Legislature to decide whether to cut more or increase revenues.

[9:54:09 AM](#)

He revealed that the state's unrestricted budget compared with unrestricted petroleum revenues have tracked each other very closely. He explained that the government spends a lot more money when it has a lot of money from petroleum revenues, and the government has to find a way to spend less when it has less.

He pointed out that the Legislature has been incredibly disciplined in terms of saving Permanent Fund earnings. He specified that the state has had a rules-based system in place around the Permanent Fund for over 30 years. He detailed that the rules-based system inflation proofs the Permanent Fund corpus, pays out a dividend and then customarily, not a legislative requirement, of not appropriating the Permanent Fund earnings reserve or otherwise taking money out of the system. Even though there has not been particularly a large amount of discipline in saving monies in high oil environments, there has been an incredible amount of discipline in terms of how the Legislature approaches the Permanent Fund. He set forth that the Legislature has shown a willingness, ability and desire to follow a structured rule-based framework versus the tendency to spend the money that is available.

He summarized that one of the goals was not only reducing volatility, but to put around the petroleum revenues some rule-based frameworks that would increase the likelihood of saving money and spending it on a plan rather than just year-to-year ad hoc.

ATTORNEY GENERAL RICHARDS explained that the goal of the APFPA was to take the state off of the commodities rollercoaster in terms of governmental spending. He detailed that stable spending patterns makes state budgeting easier. He pointed out that Alaska's revenues have historically gone up and down over 50 percent. He noted that revenues were almost \$10 billion in 2008 during the oil tax period from Alaska's Clear and Equitable Share (ACES) to this year's \$2 billion. He summarized that going to a more annuitized system would make governmental budgeting easier and its consequence would roll through the state's economy as well.

[9:57:51 AM](#)

He revealed that the International Monetary Fund (IMF) reported that natural-resource based economies tend not to do well because they do not have broad-based taxation and are subject to oil revenue's cyclicalities. He said the IMF report suggests that finding a way to create a fiscal structure that was not reliant on year-to-year volatility would not only make governmental budgeting easier, but would actually improve an economy as a whole by avoiding the danger of "pro-cyclical spending" which was spending a lot when a government was flush with revenue. He pointed out that an economic double-whammy occurs when governmental spending was dramatically reduced at the same time that other economic sectors and petroleum development comes down. He noted that the IMF report concluded that diversifying oil based and commodity-based economies could mean as much as a 0.3 percent increase in annual GDP growth.

He summarized that Alaska's economy was not broad enough to tax at a level that would diversify the state away from the oil and gas sector. He said the state has to find a way to use its sovereign wealth to develop a sound fiscal policy.

[10:02:00 AM](#)

CHAIR STOLTZE addressed one of the rules Attorney General Richards talked about and said there's not a strict adherence. He specified that the constitution required 25 percent royalties for quite a while. He noted that the Legislature and the administration supported 50 percent and the percentage was reduced during the 23rd Legislature. He said some rules are more flexible than others.

ATTORNEY GENERAL RICHARDS answered correct. He noted that he refers to what Chair Stoltze addressed as the Savings Rule and the Spending Rule. He specified that the Savings Rule has had

variability in it, but he thought of past actions as doing a little extra. He said the Legislature has been incredibly disciplined regarding the Spending Rule where the rules framework has not been broken where the Earnings Reserve was raided for capital projects.

SENATOR HUGGINS asserted that the State of Alaska pays for everything. He specified that his statement was an overstatement, but not far from the truth. He opined that the concept where the state pays for everything has not been addressed.

ATTORNEY GENERAL RICHARDS reiterated that any solution with the Permanent Fund was a half-solution where a billion dollar differential would still exist. He opined that there was going to be lots of room for policy discussions on revenues and spending.

[10:04:04 AM](#)

He set forth that a rules-based framework would sustain the Permanent Fund by:

- Preserving the purchasing power or inflation proofing the value of the Permanent Fund over time to ensure that the next generation had the same level of wealth as the current generation.
- Making sure the plan's durability modeling ensured enough money for annual draws to the General Fund and dividends.
- Making sure the Earnings Reserve did not grow too large over time to decrease the chance of a raid.

He added that a good policy would be taking what was not needed in the Earnings Reserve and moving it to the corpus.

CHAIR STOLTZE noted that Attorney General Richards characterized any appropriation from the Earnings Reserve as a "raid."

ATTORNEY GENERAL RICHARDS replied that he should frame the characterization as "ad hoc spending," spending from the Permanent Fund in a manner that was not under a sustainable plan.

[10:06:22 AM](#)

He addressed the difference between the sovereign wealth fund model and a classical endowment model. He specified that the sovereign wealth fund model would house the petroleum revenues

in the Permanent Fund itself. Under the classic endowment model, the petrol revenues would remain in the General Fund.

ATTORNEY GENERAL RICHARDS said the next option was to decide whether to go with a fixed draw or a POMV draw. He explained that the governor's bill has several advantages where petroleum revenue volatility would be housed in the Permanent Fund with a fixed-draw amount. He specified that a fixed draw would allow for a smoothed out or averaged spending where a bit more spending would be possible in lower years and a bit more savings in higher years of petroleum revenues. He pointed out that the Permanent Fund and the POMV both use averages as a way to get reasoned calculations that do not jump all over the place. He said putting the petroleum revenues into the Permanent Fund was a similar concept where revenues are assigned a value and a certain amount would be spent every year. He suggested that petroleum revenue be thought of as an asset and deciding what amount of the asset can be spent every year on a sustained basis. He added that the governor's plan was similar to Scott Goldsmith's approach.

[10:08:36 AM](#)

SENATOR HUGGINS asked Attorney General Richard to confirm that under the endowment model, the assumption was that the Permanent Fund maintains its traditional role and it would not be leveraged for something else.

ATTORNEY GENERAL RICHARDS answered that the Permanent Fund would be in its traditional role plus some kind of endowment-like payment to the General Fund plus dividends.

SENATOR HUGGINS asked if the Permanent Fund would be destabilized or volatility created if the fund was used as a backstop for a gas pipeline.

ATTORNEY GENERAL RICHARDS answered that he did not know, but suggested that there were several ways to do it. He remarked that he has not heard anyone propose using the Permanent Fund in the manner Senator Huggins suggested; but if used, he opined that the Permanent Fund would directly invest as opposed to backstopping bonds.

He noted that the fixed amount and POMV were both reasonable and produce the same amount of money over time; however, the percentage of market value approach would have more fluctuation. He reiterated that the biggest difference between the governor's approach and SB 114's sovereign wealth was where oil price

volatility would reside. He said the disadvantage of having oil price volatility reside in the General Fund was that the state would be stuck with the annual amount that could be collected. He specified that reasoned assumptions could not be made about how much could be spent over time, which meant there would always be volatility in the General Fund.

[10:11:46 AM](#)

ATTORNEY GENERAL RICHARDS explained that a hypothetical modeling exercise was done by the Department of Revenue to show what would have happened if the POMV concept was enacted in the past. He pointed out that the modeling showed that the POMV approach would not have smoothed out the volatility-curve associated with oil prices and additional layers would have been laid on the volatility. He said the layering would have made sense in the low years because the revenues would have been needed to meet budgeting needs, but in high years an unadjusted POMV would have compounded pro-cyclical spending because savings would be placed into a general fund that already had excess revenues.

He remarked that the revenue-limitation amendment that the committee passed was a good amendment because during high oil price environments, money from savings would not be put into a budget that was already highly funded. He explained that the difference between the revenue limit and what the governor's bill does was as follows:

1. Does not provide for automatic savings of the petroleum revenues at very high revenues.
2. Does not allow for spending a constant level of petroleum revenues over time regardless of what is collected.
3. Volatility in the General Fund would continue to exist under the revenue-limit cap.

CHAIR STOLTZE clarified that not spending would increase the likelihood of spending.

ATTORNEY GENERAL RICHARDS answered correct. He specified that the POMV payout does not provide a limitation on spending or revenues in terms of excess oil revenues. He remarked that the revenue limitation would do a very good job of making sure that financial savings were not spent when it's not needed, but the amendment would not go to the next step of ensuring financial savings at real high oil prices.

[10:14:29 AM](#)

ATTORNEY GENERAL RICHARDS addressed the different dividend methodologies and noted that two combinations did not make the most sense mathematically. He said using a POMV draw with an earnings-based dividend was a little dangerous because the POMV was a pretty steady amount, but the earnings-based dividend would always be very variable and the result would make it harder to depend on revenues to the General Fund each year. He said the preferred alternative to a POMV draw and an earnings-based dividend would be to base the dividend on the market value of the fund rather than year-to-year earnings, the end result would not have the variability and swings that exist under the current system. He remarked that although variability and swings might be good policy in terms of people's dividends, variability rather than stability in revenue to the General Fund did not make sense.

He said the other type of dividend combination that he found mathematically challenging was SB 114's initial version with a royalty-based dividend and a PFD floor. He detailed that dividends would be paid out on the upside of oil prices, but guaranteed with a floor on the downside of oil prices. He asserted that the dividend plan under SB 114 would easily become unsustainable very fast.

[10:17:44 AM](#)

SENATOR MCGUIRE thanked Commissioner Hoffbeck and Attorney General Richards for working with her office. She opined that an amalgamation of bills would ultimately happen because people understand where the state was financially. She analogized that people were at the acceptance level that a "root canal" must be performed.

[10:19:57 AM](#)

SENATOR COGHILL commented that the real question was whether the state's wealth could be used to stabilize the government as the Legislature starts slimming down the budget. He said to date, the Permanent Fund earnings have not been used for general government purposes. He detailed that using the current methodology and taking money out of Permanent Fund earnings for government spending would highly impact the dividend. He stated that the intent in the governor's plan and SB 114 was to protect and sustain the value of the state's wealth when used for the first time in government services and the dividend. He said he appreciated the approach being taken and noted that that was the reason for his methodology change in introducing his amendment. He remarked that if the Legislature does not do anything, the Permanent Fund earnings could be used, but the impact on the

dividend would be great and the state's volatility would not change.

[CHAIR STOLTZE set SB 128 aside for further consideration.]

[10:22:48 AM](#)

CHAIR STOLTZE recessed the meeting to the call of the chair.

SJR 1-CONST AM: GUARANTEE PERM FUND DIVIDEND

[2:32:02 PM](#)

CHAIR STOLTZE called the committee back to order and announced the consideration of SJR 1.

[2:33:19 PM](#)

SENATOR WIELECHOWSKI moved to report SJR 1, [29-LS0008\A], out of committee with individual recommendations and accompanying fiscal notes.

[2:33:28 PM](#)

CHAIR STOLTZE announced that without objection, SJR 1 moved out of committee.

SB 114-PERM FUND: EARNINGS, DEPOSITS, ACCOUNTS

[2:33:46 PM](#)

CHAIR STOLTZE announced the continued consideration of SB 114. He restated the motion to adopt Amendment 29-LS0833\U.1 ("U.1").

SENATOR HUGGINS restated his objection.

CHAIR STOLTZE moved to amend Amendment U.1. He explained that in consultation with the sponsor, Senator McGuire asked that the provision's sunset be extended one additional year. He explained that the amendment was conceptual because drafting would have taken too long due to the sunset provision's complex language.

CHAIR STOLTZE moved a conceptual amendment to Amendment U.1.

CONCEPTUAL AMENDMENT TO AMENDMENT U.1

The provisions inserted through Amendment [U.1] which sunset the act within two years, shall be altered to reflect a 3 year sunset extending the repeal-sunset provisions for one additional year.

[2:34:45 PM](#)

CHAIR STOLTZE found no objection to the conceptual amendment to Amendment U.1 and it was adopted.

SENATOR HUGGINS removed his objection.

[2:35:03 PM](#)

CHAIR STOLTZE found no objection to Amendment U.1, as amended, and it was adopted.

SENATOR COGHILL said Amendment U. 2 has a technical drafting error and he would like to amend his motion to adopt it to reflect the proper citation of 29-LS0883\U.3 ("U.3").

SENATOR HUGGINS objected for discussion purposes.

SENATOR COGHILL explained that it is the same amendment but the citation was typed incorrectly. It should be 29-LS0883\U.3.

SENATOR HUGGINS removed his objection.

[2:36:06 PM](#)

CHAIR STOLTZE announced that hearing no objection, Amendment U.3 is adopted.

[2:36:11 PM](#)

SENATOR MCGUIRE moved to report the [committee substitute] for sponsor substitute for SB 114, as amended, from committee with individual recommendations and attached fiscal notes.

[2:36:39 PM](#)

CHAIR STOLTZE announced that without objection, CSSSB 114(STA) moved from committee.

SB 128-PERM. FUND: DEPOSITS; DIVIDEND; EARNINGS

[2:36:48 PM](#)

CHAIR STOLTZE returned attention to SB 128. Finding no amendments or additional discussion, he solicited a motion.

[2:37:01 PM](#)

SENATOR COGHILL moved to report SB 128 from committee with individual recommendations and attached fiscal notes.

[2:37:07 PM](#)

CHAIR STOLTZE announced that without objection, SB 128 moved from committee.

[2:37:54 PM](#)

There being no further business to come before the committee, Chair Stoltze adjourned the Senate State Affairs Committee at 2:37 p.m.