

HOUSE FINANCE COMMITTEE
March 1, 2017
2:35 p.m.

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CALL TO ORDER

Co-Chair Seaton called the House Finance Committee meeting to order at 2:35 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Paul Seaton, Co-Chair
Representative Les Gara, Vice-Chair
Representative Jason Grenn
Representative David Guttenberg
Representative Scott Kawasaki
Representative Dan Ortiz
Representative Lance Pruitt
Representative Steve Thompson
Representative Cathy Tilton
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Representative Charisse Millett; Representative Dan Saddler; Representative Mike Chenault; Representative Jennifer Johnston; Representative Colleen Sullivan-Leonard; Representative David Eastman; Representative Chris Birch; Representative Chuck Kopp; Representative Gary Knopp; Representative Dave Talerico; Representative Mark Neuman; Representative Lora Reinbold; Representative George Raucher.

SUMMARY

HB 57 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 57 was HEARD and HELD in committee for further consideration.

HB 59 APPROP: MENTAL HEALTH BUDGET

HB 59 was HEARD and HELD in committee for further consideration.

Co-Chair Seaton addressed the meeting agenda.

#hb57

#hb59

HOUSE BILL NO. 57

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; repealing appropriations; making supplemental appropriations and reappropriations, and making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 59

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

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Co-Chair Seaton explained the information provided to members. He underscored that the bill versions for consideration were not finals. The committee would be hearing public testimony the following three days. He addressed the schedule for the following week pertaining to amendments.

[2:41:13 PM](#)

Representative Wilson asked about the chair's intent regarding public testimony and wanted to ensure people testifying had time to express their comments.

Co-Chair Seaton relayed that testifiers who were not heard by the end of their communities' allotted time-slot would be rolled to the end of public testimony.

Representative Wilson requested more time for amendments following public testimony.

Co-Chair Seaton thanked Representative Wilson for her comments, but maintained the 5:00 p.m. deadline on Saturday, March 4.

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Co-Chair Foster MOVED to ADOPT the proposed committee substitute (CS) for HB 57, Work Draft 30-GH1855\U (Wallace, 3/1/17).

Representative Wilson OBJECTED.

[2:44:59 PM](#)

AT EASE

[2:45:39 PM](#)

RECONVENED

Representative Wilson spoke to her objection. She referenced an article put forward by Governor Bill Walker [Alaska Dispatch News, May 14, 2016], in which he expressed his views on the \$4 billion draw on the Permanent Fund Earnings Reserve Account (ERA), where he opined that taking out \$4 billion in a single fiscal year would erode the value of the fund and its earning potential. She read an excerpt from the article:

A fast and large drawdown does not allow for the fund to keep up with inflation—and reduces the fund's purchasing power.

It would leave us with \$150 million to \$200 million less that can be drawn annually under a rules-based framework...

Representative Wilson also mentioned a memorandum provided in response to a list of questions asked of Commissioner Randall Hoffbeck, Department of Revenue [memorandum addressed to staff to Representative Steve Thompson dated January 27, 2017 (copy on file)]. She referenced answer 7 [page 5 of the memorandum] where Commissioner Hoffbeck specified that taking out \$4 billion or more in a single fiscal year would inevitably erode the value of the fund

and hurt its future ability to provide support for dividends and government. She wondered how the draw would affect the ERA and the dividend in future years.

Co-Chair Seaton corrected that the items were addressing a \$4 billion ad hoc draw at a single time, whereas the bill proposed a draw over two fiscal years, 2017 and 2018. He also mentioned that according to Angela Rodell, Executive Director, Alaska Permanent Fund Corporation (APFC), the schedule was in August of each year, so that it would not be an ad hoc draw. He understood the point, but disagreed.

Representative Wilson explained it was not only the specific portion of the draw, or whether it occurred over one year or two years, but that it would substantially impact the Permanent Fund. She found it very interesting that Ms. Rodell's testimony had been different the prior day compared to the prior week, when she had been very cautious about how much money would have to be taken out and how investment would change if the state was going to start using the Permanent Fund as its general fund. She underscored that although the bill proposed taking the funds out over a two-year period, the action was being taken before knowing the final budget. She believed it was indisputable that using the funds took savings away from a fund with the biggest earning potential (compared to the Constitutional Budget Reserve (CBR), which was invested in safer [lower earning] investments). She thought the public needed to understand there had been significant talk about essentially "reaching your hand in the cookie jar" and taking out a certain amount of money. She noted that a two-minute time limit on public testimony was minimal considering the size of the bill. She continued to discuss the negative effects a draw would have on the Permanent Fund, particularly if the stock market plummeted in the future. She added that the bill would also mean the funds would be placed in an account that would earn little to no money.

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Vice-Chair Gara understood the disagreement and the frustration. He remarked on his past experience as a member of the House Minority. He brought up a discussion about something that had occurred a few years back compared to the present. He stated it was "not an apples-to-apples comparison." He elaborated that two years earlier there had

been an attempt by the former Majority to take \$5 billion from the ERA.

2:52:18 PM

AT EASE

2:52:55 PM

RECONVENED

Vice-Chair Gara listed some of the items in the bill. He remarked that he would personally like a larger dividend. The current bill contained a \$1,100 Permanent Fund Dividend (PFD), which was larger than those in other proposals. He stated that the budget before the committee did what the legislature had historically done until the previous year; put funds into the Public Education Fund. That money would be the full amount to pay for the Base Student Allocation (BSA). He wanted to see a bigger BSA.

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Representative Pruitt described his opposition to the CS. He emphasized that the committee was trying to pass a budget based on bills that had not passed, by creating a framework through which bills that may not pass would have been included in the amendments. He spoke to an attempt to remove the role of the Minority in crafting the budget, for example by removing the CBR discussion. He underlined that he was not referencing a letter that had come forward two years previous, but stated that it had been objected to at the time, but was somehow acceptable at the current stage. He was challenged with the process at hand. Amendments had been offered by Majority members and the public would then testify on those amendments and on the bill. The Minority members had not been given the opportunity to offer amendments before public testimony. He thought all amendments should be offered either before or after public testimony. He pointed to a separation between Majority and Minority participation and called for a discussion of amendments in committee whether they passed or not. He recognized colleagues in the audience.

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Co-Chair Seaton clarified that every Minority member had been on finance subcommittees and that all amendments offered were subcommittee amendments. He specified that no

personal amendments had been put forward, only subcommittee amendments. He had chaired the subcommittee for the language amendments and had offered them as the subcommittee chair. He detailed that subcommittees had been composed of policy committees which were all composed of members of the Majority and the Minority. He disagreed with the comments made. He addressed an earlier point Vice-Chair Gara had wanted to make and clarified that the subject of the letter from two years earlier had been brought up previously; therefore, he would allow Vice-Chair Gara to address the issue. Co-Chair Seaton described the proposed actions of the previous Majority, that wanted to transfer a one-time sum of \$4.5 billion from the ERA to the corpus of the fund, and a second transfer for the following year to the amount of \$1.5 billion; the action would have made the funds unavailable for appropriation. He suggested that a discussion of overdrafts would have to include that proposal two years ago by the then Majority that was objected to by several members, including himself, as depleting savings to the point where a PFD may no longer have been an option. The current bill took a structured draw and reflected the same proposal by the governor in the amount of 5.25 percent of the market value draw from the ERA in 2017, and 5.25 percent draw in 2018. He reiterated that Ms. Rodell had stated that the proposed draw amount would not influence APFC's investment strategies.

[3:02:10 PM](#)

Representative Pruitt read from a subcommittee narrative that the budget amendments were submitted by the subcommittee chair. He maintained that many of his colleagues were ready to be a part of the process and felt that they were not fully able to be. He stated that in some instances there were opportunities to offer amendments, and in other cases there were not. He disagreed with the statements made previously. He asked about a subcommittee related to language. He had never heard of it.

Co-Chair Seaton agreed. The language section was the purview of the operating budget chair. He highlighted that the procedure had previously been rolled into a CS behind closed doors, whereas now the CS only contained changes to the governor's budget and amendments that had been voted on by the committee.

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Representative Thompson spoke to a gigantic draw of \$4.2 billion from the ERA. He believed Co-Chair Seaton had made a misstatement related to Ms. Rodell's prior testimony. He corrected that Ms. Rodell had stated that the draw for the PFD checks was made in August and that the \$1.7 billion draw for the education fund would be made on the first of July. The size of the draw and the effect of lost earnings amounted to \$200 million to \$400 million per year. Currently the Permanent Fund was earning 18 percent returns. He was disappointed in the process. He also wished to recognize the other House members present.

[3:06:38 PM](#)

Co-Chair Seaton clarified that Ms. Rodell had testified that the \$1.7 billion draw would be structured over time and it would not pose a cash problem for APFC. He recognized Representatives Jennifer Johnston, Colleen Sullivan-Leonard, Charisse Millett, Dan Saddler, George Rauscher, DeLena Johnson, Chris Birch, Chuck Kopp, Dave Talerico, Gary Knopp, David Eastman, Mike Chenault, Mark Neuman, and Lora Reinbold in the audience.

[3:07:50 PM](#)

Representative Tilton spoke to her opposition to the CS. She was opposed to including bills in the document that had not passed. She remarked on the dividend rate set in the CS that had not heard discussion and on the removal of the CBR. She was concerned that Mat-Su testifiers would not be able to examine the bill in time for public testimony. She did not believe her colleagues had received the voice they should have and that the committee had been told that the subcommittee would not hear amendments the subcommittee chair did not like.

[3:10:05 PM](#)

Vice-Chair Gara discussed the prior years' budget process in the committee. He understood not being happy with the budget. He explained that in the past, the committee chair, without consultation with anyone in the Minority, had written the language section of the CS, put it into a two-hundred page document, and put it forward. Some of the material would be read through, some of it was confusing, but there had been no real debate. He added that some

subcommittees had not allowed amendments and others had. He underscored that in this case, all of the amendments in the CS had been discussed by the committee and had been more openly discussed than in the past. He contended the present system was not perfect but was better than previous ones.

[3:13:39 PM](#)

Representative Wilson clarified that comments from Commissioner Hoffbeck were made on January 27, 2017, and that Governor Walker's article was from May 14, 2016, so both were relatively recent. She stated that in the past the purpose of the draw had been to put money back into the corpus of the Permanent Fund, not to be spent on government. She mentioned that there was a section that was much bigger than she had ever seen in a budget bill; one amendment had contained six parts. She believed Co-Chair Seaton had done things differently and she was not complaining, but that she wanted to ensure that the people of Alaska understood and would be able to comment on all of the amendments. She MAINTAINED her OBJECTION.

Co-Chair Seaton clarified that the proposed draw from the ERA was less than that proposed by the governor. The governor proposed, in 2017, 5.25 percent in addition to the PFD that was paid in 2017. This bill reduced the amount of the draw so that it was 5.25 percent of the value minus the amount of \$695 million paid out in dividends. He understood the objection, but stated that it was an objection to what the governor had originally put forward and not to the amendments.

[3:17:32 PM](#)

A roll call vote was taken on the motion.

IN FAVOR: Gara, Grenn, Guttenberg, Kawasaki, Ortiz, Seaton, Foster

OPPOSED: Tilton, Wilson, Pruitt, Thompson

The MOTION PASSED (7/4). There being NO further OBJECTION, Work Draft 30-GH1855\U was ADOPTED.

[3:18:20 PM](#)

Co-Chair Foster MOVED to ADOPT the proposed committee substitute for HB 59, Work Draft 30-GH1856\J (Wallace, 2/28/17). There being NO OBJECTION, it was so ordered.

HB 57 was HEARD and HELD in committee for further consideration.

HB 59 was HEARD and HELD in committee for further consideration.

Co-Chair Seaton discussed the schedule for the following day.

#

ADJOURNMENT

[3:19:43 PM](#)

The meeting was adjourned at 3:19 p.m.