

HOUSE FINANCE COMMITTEE  
March 17, 2017  
2:47 p.m.

2:47:00 PM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 2:47 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  
Representative Mark Neuman (alternate)

MEMBERS ABSENT

Representative Steve Thompson

ALSO PRESENT

Ed King, Special Assistant to the Commissioner, Department of Natural Resources; Randall Hoffbeck, Commissioner, Department of Revenue; Brandon Brefczynski, Staff, Representative Steve Thompson; Alexei Painter, Analyst, Legislative Finance Division.

PRESENT VIA TELECONFERENCE

None

SUMMARY

HB 115 INCOME TAX; PFD CREDIT; PERM FUND INCOME

HB 115 was HEARD and HELD in committee for further consideration.

SB 30 APPROVAL: ROYALTY OIL SALE TO PETRO STAR

[2:47:08 PM](#)

Co-Chair Foster addressed the meeting agenda. He noted that Representative Mark Neuman was sitting in as an alternate for Representative Thompson.

#sb30

SENATE BILL NO. 30

"An Act approving and ratifying the sale of royalty oil by the State of Alaska to Petro Star Inc.; and providing for an effective date."

[2:48:04 PM](#)

Representative Wilson questioned the fiscal note. She wondered about the non-UGF (Other) fund source of \$1.945.4 million.

ED KING, SPECIAL ASSISTANT TO THE COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, identified three funds [royalty distribution]: the general fund, Permanent Fund, and the Public School Trust Fund.

Co-Chair Foster noted there were no amendments to the bill.

Vice-Chair Gara addressed the fiscal note from the Department of Natural Resources, FN 2 (DNR). The fiscal note had zero expenditures and brought in revenues totaling \$3.852.2 million in FY 18.

[2:50:22 PM](#)

Mr. King clarified that the initial fiscal note FN 1 (DNR) had contained an error.

Co-Chair Seaton MOVED to REPORT SB 30 out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SB 30 was REPORTED out of committee with a "do pass" recommendation and with one previously published fiscal impact note: FN2 DNR.

[2:51:26 PM](#)

AT EASE

[2:52:14 PM](#)

RECONVENED

#hb115

HOUSE BILL NO. 115

"An Act relating to the permanent fund dividend; relating to the appropriation of certain amounts of the earnings reserve account; relating to the taxation of income of individuals; relating to a payment against the individual income tax from the permanent fund dividend disbursement; repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act; and providing for an effective date."

[2:52:21 PM](#)

^AMENDMENTS

[2:52:57 PM](#)

AT EASE

[2:53:38 PM](#)

RECONVENED

Representative Wilson WITHDREW Amendment 16, 30-LS0125\E.23 (Nauman, 3/12/17) (copy on file) and Amendment 17, 30-LS0125\E.22 (Nauman, 3/10/17).

Representative Wilson MOVED to ADOPT Amendment 18, 30-LS0125\E.39 (Nauman, 3/17/17).

Page 1, line 5, following "Act;":

2 Insert "authorizing an advisory vote to approve legislative action that appropriates money from the earnings reserve account for a purpose other than a payment of a permanent fund dividend;"

Page 10, following line 24:

Insert a new bill section to read:  
Sec. 16. The uncodified law of the State of Alaska is amended by adding a new section to read:

ADVISORY VOTE. At the next primary election to be held in substantial compliance with the election laws of the state, including absentee voting and the preparation, publication, and mailing of an election pamphlet under AS 15.58, the lieutenant governor shall place before the qualified voters of the state a question advisory to the legislature and the governor. The election pamphlet for the special election must comply with AS 15.58.020(a) (6), including the requirement that it contain statements that advocate voter approval or rejection of the question. Notwithstanding AS 15.80.005 and other laws relating to preparation of the ballot proposition, the question shall appear on the ballot in the following form:

QUESTION

Should the legislature appropriate money from the permanent fund earnings for a purpose other than a payment of a permanent fund dividend?

Yes [ ] No [ ]"

Renumber the following bill sections accordingly.

Page 10, line 29:  
Delete "15, and 16"  
Insert "and 15 - 17"

Page 10, line 31:  
Delete "see. 17"  
Insert "sec. 18"

Representative Grenn OBJECTED for discussion.

Representative Wilson spoke to the amendment. She explained that the amendment called for an advisory vote. She referenced a memorandum from Legislative Legal Services dated March 17, 2017 related to advisory votes.

[2:54:40 PM](#)

Co-Chair Seaton noted the language, "at the next primary election" and indicated that the next primary election was scheduled in August of the following year [2018]. He asked whether that was the amendment sponsor's intention. Representative Wilson replied in the affirmative. She felt that the tax discussion was "complex" and did not want to "rush." She added that if legislation was passed, the delay allowed time to assess whether it was working.

Co-Chair Seaton spoke in opposition to the amendment. He felt that the impending vote would delay the "immediacy of the discussion and the development of the bills." He voiced that a referendum procedure was available if the public disapproved of the approach chosen by the legislature. He thought that the vote led to a "blind trail" and did not allow the legislature to address the issue and move forward with a plan.

Representative Neuman supported the amendment and alluded to public sentiment towards the Permanent Fund Dividend (PFD). He stated that there were many diverse views on how the Permanent Fund should be used. He believed that the advisory vote "was a good idea" and that "the public should have the chance to decide." He indicated that the fate of the legislation Co-Chair Seaton referred to was uncertain. He reported that according to the Department of Revenue the state had over \$15 billion in reserves; \$10.6 billion in the Earning Reserves Account (ERA) and \$4.5 billion in the Constitutional Budget Reserves (CBR). He noted that the deficits were running \$3 billion. He did not support using the Permanent Fund to fund government while the reserves were high.

[2:59:04 PM](#)

Representative Guttenberg testified in opposition to the amendment. He shared his concerns regarding the issue. He spoke to the prior and current process of attempting to address the problem through creation of an endowment to create a revenue stream while reserves dwindled each year a plan was not adopted. He stated that the amendment was merely an advisory vote and relayed that the public might introduce their own referendum resulting in two measures on the ballot posing the same question. He thought public opinion was diverse and that an advisory vote was not helpful especially one and half years away. He believed

that it was imperative for the legislature to take immediate action.

Representative Pruitt believed there would be an advisory vote whether it was proposed by the legislature or put forward in a referendum. He supported the amendment. He emphasized his strong support for an advisory vote. He determined that public disapproval of actions taken by the legislature would more "carefully" guide the policy. He believed that many politicians had created a mind set over 30 years that the Permanent Fund would never be used to fund government. He believed that the amendment allowed public participation and as a result "kept the legislature on track no matter" what action was taken.

[3:03:43 PM](#)

Representative Tilton spoke in favor of the amendment. She recounted that the committee had heard discussions about timing. She related that prior legislatures had discussed an advisory vote on the matter. She wished that the vote had already taken place and wanted the public to have a voice on the issue.

Vice-Chair Gara was opposed to the amendment. He discussed that part of the legislature's job was to ensure it "did not fool the public." He remarked that the roughly \$9 billion in the Permanent Fund Earnings Reserve Account was referred to as savings. He noted that at the end of the current fiscal year the state's savings balance would be \$3 billion lower and depleted in the following fiscal year. He reminded the committee that the balance started at \$17 billion. There ultimately would not be sufficient money to pay a dividend if ERA funds were expended like savings - even with the implementation of "radical budget cuts." He wanted to work together to determine a way to protect the dividend.

[3:06:10 PM](#)

Representative Wilson provided closing comments on the amendment. She believed it was a good thing the vote would not happen immediately. She did not view the vote as slowing down or stopping anything. She wanted the public to be more engaged. An advisory vote would open a dialogue with the public. She stated the vote would force

legislators "to have a specific conversation with their constituents."

3:09:26 PM

Representative Grenn MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Pruitt, Neuman, Tilton, Wilson  
OPPOSED:

The MOTION FAILED (4/7).

3:10:04 PM

Representative Wilson MOVED to ADOPT Amendment 19, 30-LS0125\E.38 (Nauman, 3/17/17).

Page 1, line 5, following "Act;":  
Insert "authorizing an advisory vote on legislative action that imposes an income tax;"

Page 10, following line 24:  
Insert a new bill section to read:  
Sec. 16. The uncodified law of the State of Alaska is amended by adding a new section to read:

ADVISORY VOTE. At the next primary election to be held in substantial compliance with the election laws of the state, including absentee voting and the preparation, publication, and mailing of an election pamphlet under AS 15.58, the lieutenant governor shall place before the qualified voters of the state a question advisory to the legislature and the governor. The election pamphlet for the special election must comply with AS 15.58.020(a) (6), including the requirement that it contain statements that advocate voter approval or rejection of the question. Notwithstanding AS 15.80.005 and other laws relating to preparation of the ballot proposition, the question shall appear on the ballot in the following form:

QUESTION

Should the legislature appropriate money from the permanent fund earnings for a purpose other than a payment of a permanent fund dividend?

Yes [ ] No [ ]"

Renumber the following bill sections accordingly.

Page 10, line 29:

Delete "15, and 16"

Insert "and 15 - 17"

Page 10, line 31:

Delete "see. 17"

Insert "sec. 18"

Co-Chair Seaton OBJECTED for discussion.

Representative Wilson spoke to the amendment. She commented that the amendment called for an advisory vote on legislative action that imposed an income tax.

Representative Guttenberg opposed the amendment. He voiced that his constituents wanted him to act and he did not want to second guess the decision by seeking an advisory vote. He supported the public's use of the referendum process to register disapproval of actions taken by the legislature.

[3:11:41 PM](#)

Representative Neuman supported the amendment. He related that his constituents rated an income tax as their least favorable way to fund government. He favored an advisory vote. He felt that an income tax took money out of the economy at a time when a recession was impending.

Co-Chair Seaton was opposed to the amendment. He did not believe it was very useful to offer generic language on the ballot that would result in a "generalized opinion." He communicated that an income tax could be constructed in many ways and specific details would generate a more informed response. He believed the ballot measure incentivized delay and interfered with forward movement on use of an income tax to solve the fiscal problems.

Representative Pruitt did not believe the structure of an income tax mattered to the public. He opined that the public had a fundamental reaction and the discussion was "psychological." He declared that the vote would reveal that "the people did not want an income tax." He believed the legislature would find "the overwhelming majority" of

voters opposed to an income tax. He did not think that a vote delayed action taken on the budget. He was not afraid of hearing from "the people" in an advisory vote. He wanted to speak for the people he represented and voiced that the "best" polling was the results from citizens voting.

[3:17:32 PM](#)

Representative Kawasaki relayed that in 2015 the Rasmuson Foundation performed a poll that included questions regarding an income tax. The poll had asked the public whether they supported an income tax. A large majority disapproved unless the tax only applied to individuals in the over \$100,000 income group. He deduced that the structure of an income tax would affect the outcome of an advisory vote.

Vice-Chair Gara spoke in opposition to the amendment. He believed that the amendments "prevented legislators from leveling with the public." He related that an income tax or permanent fund restructuring (no dividend distribution) alone would not solve the fiscal problem. He declared that he had wanted a larger dividend than the amount Alaskans received the prior year. He stated that the budget deficit was so large the concept was beyond comprehension for many. He voiced that the issue "was not a political thing." He reiterated that single fixes like a sales tax or "radical cuts" to the budget did not solve the fiscal problem. The state would run out of savings soon.

Representative Neuman asked that the discussion remain focused on the amendment.

Co-Chair Foster requested that Vice-Chair Gara restrain his comments.

Vice-Chair Gara did not support putting part of a fiscal plan to a public vote. He thought the advisory vote would mislead the public. He characterized the issue as a "massive" math problem that would lead to a 10-year recession.

[3:22:01 PM](#)

Representative Wilson provided concluding comments on the amendment. She did not know "when it had become a crime to ask the public what they wanted." She felt that she engaged

in honest discourse with her constituents. She stated that taxing a person's income was "specific" and was a significant and important issue. She welcomed the public's opinion on the matter.

3:24:31 PM

Co-Chair Seaton MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Pruitt, Neuman, Tilton, Thompson  
OPPOSED: Ortiz, Gara, Grenn, Guttenberg, Kawasaki, Foster, Seaton

The MOTION FAILED (4/7).

3:25:07 PM

Representative Pruitt MOVED to ADOPT Amendment 12, 30-LS0125\E.27 (Nauman, 3/10/17) (copy on file):

Page 1, line 1, following "dividends;":

Insert "relating to the management of the budget reserve fund;"

Page 1, following line 9:

Insert a new bill section to read:

"Sec. 2. AS 37.10.430(c) is amended to read:

(c) A special subaccount is established in the budget reserve fund (art. IX, sec. 17. Constitution of the State of Alaska). Money in the subaccount shall be invested to yield higher returns than might be feasible to obtain with other money in the budget reserve fund. [IN ESTABLISHING OR MODIFYING THE INVESTMENT POLICY

11 FOR THE SUBACCOUNT IN THE CONSTITUTIONAL BUDGET RESERVE FUND, THE COMMISSIONER OF REVENUE SHALL ASSUME THAT THOSE FUNDS WILL NOT BE NEEDED FOR AT LEAST FIVE YEARS.] Income earned on money in the subaccount shall be retained in the subaccount by the department."

Page 10, line 18:

Delete "sec. 11"

Insert "sec. 12"

Page 10, line 19:

Delete "sec. 11"

Insert "sec. 12"

Page 10, line27:

Delete "secs. 2 - 9" in both places

Insert "secs. 3 - 10" in both places

Page 10, line 29:

Delete "Sections 1 - 9, 15, and 16"

Insert "Sections 1, 3 - 10, 16, and 17"

Page 10, Iine31:

Delete "sec. 17"

Insert "sec. 18"

Co-Chair Seaton OBJECTED.

Representative Pruitt spoke to the amendment. He related that CBR funds were conservatively managed under a five-year limit based on a potential need for liquidity. He indicated that two years prior Commissioner Hoffbeck (Department of Revenue) moved CBR funds to an account that was managed more conservatively so that the funds were readily available for expenditure. However, the account was "making less money." The amendment allowed funds not deemed necessary in the short term to be managed more aggressively in the hopes of gaining higher earnings. In addition, the funds must remain in a type of account that kept the funds readily available for expenditure.

[3:28:35 PM](#)

Co-Chair Seaton thought the amendment seemed logical, but he wanted to see how it worked within the revenue restructuring act.

RANDALL HOFFBECK, COMMISSIONER, DEPARTMENT OF REVENUE, answered that the amendment worked within the framework of the restructuring act in two distinct ways. He explained that by allowing greater flexibility in the way the funds were invested increased the return on investment. Secondly, the Permanent Fund restructuring component required a draw from the Earnings Reserve Account (ERA) but the administration did not want the Alaska Permanent Fund Corporation (APFC) to change its investment practices. The draw required "cash management on the treasury side" and the CBR played a critical role. The flexibility within the

CBR allowed a structure to become a "cash management vehicle," ensuring liquidity needs. He reiterated that the CBR would be a critical tool in the restructuring process for cash management, but the amendment allowed for "greater returns" as well.

Vice-Chair Gara favored the provision. He asked for verification that the amendment made no sense if a revenue plan was not adopted. He noted that current spending from the CBR necessitated short-term, low interest investments. Commissioner Hoffbeck answered in the affirmative. He added that without restructuring, the CBR funds were needed within two years and would be kept "liquid and secure." He restated that if no restructuring occurred, the CBR would be gone in two years. Vice-Chair Gara asked whether 1 or 2 percent interest was expected on short term investments versus 8 or 9 percent on long term investments. Commissioner Hoffbeck answered that the earnings were about 2 percent. Vice-Chair Gara supported the amendment. He stated that the CBR could only be invested in the long-term if the legislature found ways to increase revenues and not deplete the fund. Commissioner Hoffbeck replied in the affirmative.

[3:33:06 PM](#)

Representative Neuman asked for verification that the legislature had the ability to use the ERA to fund government. Commissioner Hoffbeck responded in the affirmative. Representative Neuman asked whether the balance of the ERA was approximately \$10 billion. Commissioner Hoffbeck agreed with the statement. Representative Neuman deduced that between the balance of the CBR, which totaled approximately \$4.6 billion and the ERA combined the state would not run out of reserves in two years. Commissioner Hoffbeck answered that the question pertained exclusively to the CBR. Representative Neuman asked whether the amendment changed the investment and management rules governing the CBR. Commissioner Hoffbeck answered that the subaccount and the main account would be invested differently from the other. The main account would be secure and liquid because it was assumed that it would be used sometime within a five-year period. The subaccount would be invested more aggressively for a longer term. Representative Neuman asked if the money was "locked up in a subaccount" the fund would not be expendable. Commissioner Hoffbeck answered CBR funds would not be

placed in a subaccount if he determined the money would be needed within five years. He added that the idea behind eliminating the five-year requirement but maintain a subaccount allowed for a more "progressive" investment policy; having three-year, four-year, five-year and over investments, opposed to a hard 5-year line for keeping money liquid. Representative Neuman wondered how the administration would know the state's future financial needs. He spoke to the crash in oil prices that had caused the current recession. Commissioner Hoffbeck answered that the five-year provision was not a five-year "lockup" of funds but more of a mindset on the amount of risk the state was willing to accept. The subaccount could be invested in a higher risk portfolio with high or low swings but could be and index fund that was accessible anytime.

[3:38:02 PM](#)

Representative Neuman asked whether DOR would have to pay penalties if the funds were used "earlier." Commissioner Hoffbeck answered in the negative. Representative Neuman thought that the legislature adopted a statute that mandated CBR management by APFC. Commissioner Hoffbeck answered that it was contained in the Permanent Fund Protection Act [SB 26 Approp Limit & Per Fund: Dividend; Earnings]. Representative Neuman suggested APFC management of the CBR as another option. He reiterated that the legislature should allow the APFC to manage the fund. He noted that the APFC recently hired more fund managers while DOR lost positions. Commissioner Hoffbeck answered that currently the APFC did not have the same cash management structure as DOR. He explained that the department managed \$400 million worth of funds monthly that was structured to allow funds to mature and become available when necessary. The APFC managed one fund. He indicated that moving the CBR to the Permanent Fund was inefficient since DOR maintained all the other accounts' management and treasury functions. He informed the committee that DOR's staff was perfectly capable of managing the money and had outperformed the APFC 22 years out of the last 30 years. He summarized that the APFC "had a different investment mandate. He shared that Angela Rodell, Executive Director, Alaska Permanent Fund Corporation had testified that she would invest the CBR in a similar manner as DOR. The department performed a study recently that showed a similar outcome whether DOR or APFC managed the CBR. He concluded that cash management was the treasury's duty so CBR management should remain with DOR.

[3:41:56 PM](#)

Representative Neuman asked for verification that the amendment would not change the investment "sideboards" that governed how the department managed the CBR. Commissioner Hoffbeck replied that the amendment provided increased flexibility versus the "hard line" of five years. Representative Neuman thought it was probably a good amendment. He related that he had received information regarding a proposed bond sale from the prior year. He offered that if the \$3.4 billion bonds sale proceeded the state would have lost \$278 million. Commissioner Hoffbeck responded that the Pension Obligation Bonds (POB) would have been sold the previous fall when the market was low. He indicated that the POB sale would have been the lowest in history; the "all in" rate was in the 3.5 to 3.7 percent range on twenty-year notes. He noted that the stock market returns since then were over 14 percent. The bonds would have been sold at the end of a downturn and the start of an upturn in the stock market. He believed an opportunity had been missed. The state would have needed to make 3.6 or 3.7 percent return on the investments over twenty years to break even. He determined that the proposed sale was "as close to a safe large-scale investment that [the state] possibly could have had." The lost opportunity had afforded a very low cost of debt.

[3:44:59 PM](#)

Representative Wilson wanted to understand the amendment. She asked for verification that the amendment allowed DOR to increase the investment opportunity in the CBR. Commissioner Hoffbeck replied in the affirmative.

Representative Ortiz asked whether a potential downside existed. Commissioner Hoffbeck answered that DOR was mandated to follow the prudent investment rule and would balance risk and reward. He felt that the five-year rule locked up funds and investing was currently "too safe."

Co-Chair Seaton WITHDREW his OBJECTION. There being NO OBJECTION, it was so ordered.

Representative Pruitt MOVED to ADOPT Amendment 13, 30-LS0125\E.25 (Nauman, 3/10/17) (copy on file):

Page 2, line 9:  
Delete "a new subsection"  
Insert "new subsections"

Page 2, following line 18:  
Insert a new subsection to read:

`(c) In accordance with AS 37.13.145(b) (1), and subject to appropriation, 33 percent of the amount available for distribution under (b) of this section shall be reserved for dividends. The remainder of the amount calculated to be available for distribution under (b) of this section shall be reduced by the difference between the amount calculated under (1) of this subsection and the amount under (2) of this subsection if the amount calculated under (1) of this subsection exceeds the amount under (2) of this subsection:

(1) the total amount of oil and gas production taxes under AS 43.55.011 - 43.55.180, mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments and bonuses received by the state from mineral leases that are deposited into the general fund in the current fiscal year; (2) the sum of \$1,200,000,000."

Vice-Chair Gara OBJECTED.

[3:47:03 PM](#)

AT EASE

[3:52:53 PM](#)

RECONVENED

Representative Pruitt addressed Amendment 12 related to the Permanent Fund draw limit. He pointed to a chart from the Legislative Finance Division showing two charts [the chart on the left was titled "UGF Revenue without Payout Limit" and the chart on the right was titled "UGF Revenue with Payout Limit" dated 3/15/17 (copy on file)]. He reported that the amendment contained a "mechanism" that ensured fund growth and dividend growth over time. The draw on the Permanent Fund for government expenditures was limited as other revenues increased. He favored the amendment because he felt that government spending would easily increase as revenue increased and pointed to historical spending

patterns to illustrate his point. In addition, he thought that a draw limit protected the funds growth for the future. He believed Commissioner Hoffbeck was supportive of the measure. He asked Commissioner Hoffbeck to address the issue.

[3:56:17 PM](#)

BRANDON BREFCZYNSKI, STAFF, REPRESENTATIVE STEVE THOMPSON, pointed to a handout distributed by Representative Thompson's office that contained a table addressing a scenario under HB 115 without the draw limit and with the draw limit (copy on file) using information from DOR. He explained that the first row on the chart showed that the median beginning of the year fund balance for FY 18 (including the FY 17 draw) was \$54 billion without the draw limit and \$54 billion with the draw limit. The second line depicted the median FY 2041 end of year balance at \$91 billion (\$54 billion real) nominal amount without the draw limit and \$109 billion nominal amount (\$64 billion real) amount with the draw limit. He pointed out that the third row contained the median FY 2041 net payout to the general fund as \$2.8 billion (\$1.7 billion real) nominal amount without the draw limit and \$3.3 billion nominal amount (\$1.9 billion real) amount with the draw limit. The last line portrayed the median FY 2041 dividend per person as \$1,837 nominal amount [\$1,077 real] without the draw limit and \$2,130 nominal amount [\$1,248 real] with the draw limit. He noted that the dividend was calculated at one-third of the Point of Market Value (POMV). He believed that the dividend amount was consistent with an adopted amendment by Vice-Chair Gara that ensured a \$1250 dividend.

[3:59:54 PM](#)

Representative Kawasaki asked for verification that the model was built to 2041. Commissioner Hoffbeck answered in the affirmative. Representative Kawasaki thought the number seemed arbitrary and was far in the future. He requested "more near-term" modeling.

Vice-Chair Gara surmised that by 2041 there was a roughly \$500 million difference. He deduced that to accomplish the increase the state had to flat-line the budget between \$75 and \$105 price per barrel of oil. He did not understand how to compare current figures to 2041 "by flat lining revenue." Commissioner Hoffbeck replied that the impact of

flat lining revenue was shown in the differences in the balances under a fixed draw. The fixed draw was what created the additional revenue in the Permanent Fund.

Vice-Chair Gara knew that every circumstance could not be included on a chart. However, for the next five to ten years funds were necessary for schools, deferred maintenance, and road construction. He wondered if oil prices reached \$75/bbl. or \$80/bbl., whether there would be funds for energy projects in rural areas, school funding, etc. The data on the table did not address the questions, it merely showed the amount of money available in the Permanent Fund. Mr. Brefczynski replied that with more money in the fund there would be more money for schools and other government expenditures, which provided sustainability and grew the fund.

Vice-Chair Gara countered that it was only more money for schools if combined revenues were factored in. The chart showed more money only for the portion of revenue that was derived from the ERA. Commissioner Hoffbeck replied in the affirmative. He communicated that employing Permanent Fund earnings was never intended to be the sole plan. Other revenues were intended to also be available to fund government. He reported that the chart was developed out of the fear that spending would "hyperinflate" in high oil price years. He specified that if the limit was in place it was necessary to "ratchet down" the draw in all years and currently less money would be available to fund services. Vice-Chair Gara relayed that the current debate included a permanent fund restructure only plan. He referred to the LFD model.

[Secretary Note: the model was interactive.]

ALEXEI PAINTER, ANALYST, LEGISLATIVE FINANCE DIVISION, replied the chart's data included the income tax provisions in HB 115. He was able to remove the income tax portion from the model. He added that in a response to previous committee questions the model included the impacts for each year from FY 18 through FY 26. He modeled lower production and higher budget figures. He explained that without the income tax or draw limit the budget was not balanced until \$85/bbl. of oil. He noted that with the draw limit the budget was not balanced until a price of \$105/bbl. in FY 18. He showed a similar situation under HB 115 without the income tax extending out through the years where a deficit

persisted. He added that with the income tax "the budget line approximately met the flat spot on the expenditure limit in the following years." Production was declining resulting in less revenue, but the POMV was larger, growing at roughly the rate of inflation.

Vice-Chair Gara asked what the model would look like under HB 115 without the income tax in 2024 and wondered how long would the deficit last.

[4:08:18 PM](#)

Mr. Painter modeled one graph under the Senate plan and one graph depicting Vice-Chair Gara's request and did not verbally explain the results.

Representative Neuman referred to the chart from Representative Thompson's office and asked whether an additional \$200 million was available for state expenditure in 24 years. Mr. Brefczynski answered in the affirmative and explained that according to the model more money would be available for state spending and dividends. He reiterated that more money retained in the Permanent Fund grew the fund. He specified that the POMV draw was based on a five-year average of the fund.

Representative Neuman asked whether \$1.2 billion was the draw limit. Commissioner Hoffbeck responded that \$1.2 billion was the amount of oil and gas tax revenue that triggered a reduction in the Permanent Fund draw, dollar for dollar. He clarified that the oil and gas tax royalties activated the draw limit. Representative Neuman asked whether the POMV was the amount reserved for the dividend distribution. Commissioner Hoffbeck answered in the negative. He clarified that the POMV was the amount of the total draw for government services and the dividend. The draw limit reduced the amount for government services but not the amount for the dividend. Representative Neuman asked whether there was an additional mechanism that added more money to the dividends.

[4:12:25 PM](#)

Commissioner Hoffbeck replied that as the fund's value grew, the 5 percent or 5.25 percent value grew. The more money in the fund the larger the dividend.

Representative Neuman pointed to the LFD chart on the screen. He noted that the bottom line on the graph depicted the state still running over a \$1 billion deficit in 24 years. Mr. Painter clarified that the slide showed a scenario without the income tax, with the income tax the deficit disappeared when the price of oil rose to \$75/bbl.

Representative Ortiz asked whether DOR included a rate of inflation for the figures through 2041. Commissioner Hoffbeck answered that the inflation rate was factored in at 2.25 percent. Representative Ortiz asked whether a higher inflation rate impacted the model. Commissioner Hoffbeck replied in the affirmative. He concluded that higher investment returns accompanying the high rate of inflation would balance out the effect on the budget. Representative Ortiz understood the deficit scenario without an income tax. He wondered what the "opportunity cost" of an extended deficit was. Commissioner Hoffbeck ascertained that the other savings would be expended first leaving unplanned draws from the ERA. Representative Ortiz asked whether other revenue was necessary under a scenario with an extended deficit. Commissioner Hoffbeck answered that the assumption was revenue or budget cuts were necessary. He added that the Permanent Fund alone was not sufficient to resolve the entire issue.

Co-Chair Seaton asked Mr. Painter to adjust the LFD chart on the screen. He requested that a reduction of fifty cents on the dollar was modeled. Co-Chair Seaton reported that the results increased revenue at \$90/bbl. of oil at a more rapid rate, but the deficit increased.

Representative Wilson requested more information about the changes to the Excel chart and how they related to the amendment.

Representative Pruitt explained that the sum of \$1.2 billion sum was found under subsection (c) (2) [line 19] on page 1 of the amendment and Co-Chair Seaton's scenario changed the \$1.2 billion to \$1.5 billion on line 19. He cited subsection (c) on lines 9 through 13 of the amendment and read the following {line identifiers included}:

...The remainder of the amount calculated to be available for distribution under (b) of this section shall be reduced by the difference between the amount calculated under (1) of this subsection and the amount

under (2) of this subsection if the amount calculated under (1) of this subsection exceeds the amount under (2) of this subsection:

Representative Pruitt referred to the sum from the calculation in subsection (1) of subsection (c) [the total amount of oil and gas production tax] and that sum was reduced \$1.00 per every dollar beyond the specified amount of revenue in (2) (c), \$1.2 billion [from oil and gas production tax]. In Co-Chair Seaton's scenario the dollar for dollar was reduced to a corresponding fifty-cent reduction.

[4:19:52 PM](#)

Co-Chair Seaton continued with his questions about the LFD chart. He asked what the charts would look like over time.

Representative Neuman saw that the UGF budget slowly increased. He asked whether the increase was related to the 2.5 percent rate of inflation. Mr. Painter answered that the model assumed a flat operating budget for the next two years subsequently increasing with inflation. He indicated that debt service was not increasing with inflation due to the pause in school debt reimbursement, but state retirement increased. The entire budget did not grow with the rate of inflation but did increase close to the inflation rate under the model.

Co-Chair Seaton requested that he take the \$1.5 billion revenue limit input to \$2 billion. He reported that kicked in at \$95/bbl. of oil. He asked Mr. Painter to return to the 50 cents on the dollar scenario. He mentioned the change would provide greater security for eliminating budget deficits and making up capital projects. He asked whether the changes he made were unadvisable. Commissioner Hoffbeck responded that he could provide further modeling but deduced that the change might require a "lower base draw" to avoid increasing the failure rate. Co-Chair Seaton indicated that his scenario looked favorable and requested that he provide additional modeling. Commissioner Hoffbeck agreed to provide the information.

Representative Pruitt interjected that the models indicated the potential for failure and the potential to erode the Permanent Fund. He related that the model included the different plans. He noted that with a full fiscal plan in

2041 the likelihood of failure was only 1.43 percent with the draw limit. Without the draw limit, the likelihood of failure was 8.6 percent. The legislature could manipulate the Permanent Fund to achieve many desired results. He voiced that a decision was needed on what the main goal of the fund was. He requested that the additional modeling include how the failure rate changed. He emphasized that the failure rate of the ERA was very important. Commissioner Hoffbeck responded that some of the other things to be considered was if the draw limit was set at a higher threshold and the dollar for dollar scenario was reduced the impact would affect the four times draw because reserves would grow slower and inflation proofing would be impacted. In addition, volatility increased.

Representative Grenn asked whether the scenario produced more for government spending. Commissioner Hoffbeck responded that if the draw limit was removed, revenue increased in certain years. The revenue spikes could increase overall spending and threaten sustainability as revenue dropped again.

[4:30:59 PM](#)

Mr. Brefczynski interjected that if the threshold was raised and lowered to fifty cents on the dollar, the real value of the Permanent Fund would decrease. He noted that HB 115 reduced the royalty contributions to the fund and eliminated the statutory inflation proofing relying on the four times rule to grow. He deduced that without the four times rule triggering because the ERA expenditure increased it was also less likely to inflation proof. He concluded that raising the threshold and lowering the offset to fifty cents on the dollar would result in a smaller Permanent Fund, smaller POMV, and a smaller dividend.

[4:32:43 PM](#)

Vice-Chair Gara commented that all the modeling was academic if the Senate's plan without additional revenue was adopted. He requested Mr. Painter model the Senate plan.

Representative Wilson contended that modeling other bills and going off topic of the amendment was confusing. She wanted to understand how the amendment worked with HB 115.

4:34:14 PM

AT EASE

4:34:44 PM

RECONVENED

Co-Chair Foster would allow the digression.

Vice-Chair Gara wanted to recognize that currently there was a difference of opinion in the legislature. He wondered how a draw limit would impact a plan that only restructured the permanent fund. He asked for a model of a permanent fund only plan. He asked for the projected numbers in 2024. Vice-Chair Gara asked whether the state retained a deficit until \$95/bbl. with the draw limit. Mr. Painter responded that he was correct. Vice-Chair Gara asked if the CBR balance would last until 2024 under a permanent fund only plan. Mr. Painter commented that under HB 115 without an income tax the CBR lasted through FY 26. Vice-Chair Gara did not want to consider the amendment until a fiscal plan was adopted. He believed the provision kept the state in austerity without increased revenue.

Representative Neuman cited the 50 cents per dollar scenario. He wondered what "volatile cash" [volatile revenue] was. Mr. Painter explained that the revenue that fell under the limit was the production tax and unrestricted general fund royalties and did not include other revenue sources. Representative Neuman interpreted that without the limit there was more revenue in general. Mr. Painter responded that the POMV payout would be reduced under the limit under high oil prices and the funds would remain in the ERA.

Mr. Brefczynski interjected that besides price, production would also influence the draw. Representative Neuman was aware of the statement.

Representative Neuman observed that in future years the POMV payout with the limit disappeared. He asked for clarification. Mr. Painter responded that the model only portrayed FY 18. He delineated that the graph represented that as oil price increased a smaller POMV draw was necessary; in the scenario it was fifty cents on the dollar. He commented that with every additional dollar of volatile revenue the POMV draw was reduced by fifty cents. He summarized that within FY 18 the dollar for dollar provision substituted one type of revenue for another; the

higher oil revenue for POMV funds. Representative Neuman asked whether the dividend check would also increase at a greater rate. Mr. Painter replied that would not be the case for FY 18. However, leaving more money in the fund would eventually increase the dividend amount based on a five year average.

Co-Chair Foster reviewed the agenda for the following meeting.

HB 115 was HEARD and HELD in committee for further consideration.

Co-Chair Foster addressed the schedule for the following meeting.

#  
ADJOURNMENT

4:43:01 PM

The meeting was adjourned at 4:43 p.m.