

HOUSE FINANCE COMMITTEE  
April 10, 2017  
8:03 a.m.

8:03:59 AM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 8:03 a.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

Taneeka Hansen, Staff, Representative Paul Seaton; Randall Hoffbeck, Commissioner, Department of Revenue.

SUMMARY

CSSB 26(FIN)

APPROP LIMIT & PER FUND:DIVIDEND;EARNINGS

CSSB 26(FIN) was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the meeting agenda.

#sb26

CS FOR SENATE BILL NO. 26(FIN)

"An Act relating to an appropriation limit; relating to the budget responsibilities of the governor; relating to the Alaska permanent fund, 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; relating to the calculation and payment of permanent fund dividends; and providing for an effective date."

8:05:00 AM

Co-Chair Seaton MOVED to ADOPT the proposed committee substitute for CSSB 26(FIN), Work Draft 30-GS1690\U (Martin, 4/7/17).

Representative Wilson OBJECTED.

TANEEKA HANSEN, STAFF, REPRESENTATIVE PAUL SEATON, addressed the changes in the CS with a document created by the House Finance co-chairs titled "SB 26 - Comparison" dated April 7, 2017 (copy on file). The comparison sheet lists the provision, the provision under the CS for SB 26 Version D, and the provision under the House CS for SB 26(FIN)-Version U:

**Provision: Intent**

**CS for SB 26 - Version D: Section 1** - Intent to reevaluate earnings in three years

**House CS for SB 26(FIN) - Version U:** Deleted

**Provision: Budget reserve fund SBR- Appropriation limit** AS 37.05.540(a)

**CS for SB 26 - Version D: Section 2** - Deletes reference to the appropriation limit created by AS 37.05.540(b), the existing appropriations limit, which is repealed by this bill.

**House CS for SB 26(FIN) - Version U:** Deleted - AS 37.05.540(b) is not repealed; the existing Statutory Budget Reserve appropriation limit remains in statute.

**Provision: Appropriation Limit** AS 37.05.545

**CS for SB 26 - Version D: Section 3** - Creates a new appropriation limit not to exceed \$4.1 billion in unrestricted general funds. Does not appropriations for certain specific purposes.

**House CS for SB 26(FIN) - Version U:** Deleted

**Provision: Marine Highway Fund AS 37.05.550**

**CS for SB 26 - Version D:**

**House CS for SB 26(FIN) - Version U: Section 1 -** Amends AS Sec. 37.05.055(b), relating to the marine highway fund, to conform to the changes made in section 6.

**Provision: Responsibilities of the Governor AS 37.07.020**

**CS for SB 26 - Version D: Section 4 -** Adds new subsection (f) requiring a governor's report on how the budget complies with the appropriation limit in sec. 3

**House CS for SB 26(FIN) - Version U: Section 2 -** Adds new subsection (f) requiring a governor's report on how the budget complies with the appropriation limit that exists in article IX section 16 of the Constitution of the State of Alaska.

**Provision: Alaska Permanent Fund AS 37.13.010(a)**

**CS for SB 26 - Version D: Section 5 -** Deletes AS 37.13.010(a)(2). The resulting change means that the Alaska Permanent fund will be filled by the constitutionally required 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, and net profit shares. The additional 25% of royalties from leases issued after December 1, 1979, which are above the constitutionally required 25%, will now remain in the general fund and will not be deposited into the permanent fund.

**House CS for SB 26(FIN) - Version U: Section 3 -** Same

**Provision: Income AS 37.13.140**

**CS for SB 26 - Version D: Section 6 -** Adds "and market value" to section title. This section directs the Permanent Fund Corporation to continue computing net income of the fund in the same manner, excluding any unrealized gains or losses but removes the calculation for determining distributable income from the earnings reserve.

**House CS for SB 26(FIN) - Version U: Section 4 -** Same

**Provision: Income AS 37.13.140 (b)**

**CS for SB 26 - Version D: Section 7 -** Adds new subsection (b) describing the amount available for distribution from the earnings reserve fund as 5.25% of the average market value of the entire fund.

**House CS for SB 26(FIN) - Version U: Section 5 - Same**

**Provision: AS 37.13.140(c)**

**CS for SB 26 - Version D:** New subsection (c) reduces the draw from the earnings reserve when oil revenues are above \$1.2 billion.

**House CS for SB 26(FIN) - Version U:** New subsection (c) reduces the draw from the earnings reserve when oil revenues are above \$1.4 billion. The draw is reduced by 80 cents on the dollar.

**Provision: Income AS 37.13.140 (b)**

**CS for SB 26 - Version D: Section 8 -** Amends subsection (b), created by this act, to change the POMV draw from 5.25% to 5%. The change is effective July 1, 2020.

**House CS for SB 26(FIN) - Version U: Section 6 -** Amends subsection (b), created by this act, to change the POMV draw from 5.25% to 5%. The change is effective July 1, 2019.

**Provision: Disposition of Income AS 37.13.145(b)**

**CS for SB 26 - Version D:**

**House CS for SB 26(FIN) - Version U: Section 7 -** Amends subsection (b) to annually direct income from the earnings reserve. 0.25 percent of market value (POMV) is directed to the principal of the fund. Separately, 33% of POMV calculated under AS 37.13.140(b) is directed from the earnings reserve to the dividend fund for dividends and 67% to the general fund for state use.

**Provision: Disposition of Income AS 37.13.145(d)**

**CS for SB 26 - Version D: Section 9 -** conforming to the distribution change in AS 37.13.140(b)

**House CS for SB 26(FIN) - Version U: Section 8 -** conforming to the change to the dividend distribution under 37.13.145(b). Same effect.

[8:08:02 AM](#)

**Provision: Disposition of Income AS 37.13.145(e)**  
**CS for SB 26 - Version D: Section 10 -** Adds a new subsection that provides that money from the earnings reserve may be transferred to the principal of the permanent fund for purposes of inflation proofing the fund when the

value of the earnings reserve account is four times the annual amount calculated under AS 37.13.140(b).

**House CS for SB 26(FIN) - Version U: Section 9** - Adds a new subsection that provides that money from the earnings reserve may be transferred to the principal of the permanent fund for purposes of inflation proofing the fund when the value of the earnings reserve account is four times the annual amount calculated under AS 37.13.140(b), up to the amount necessary to make up for any past inflation proofing that was not transferred. Subsection (f) directs an additional appropriation, if necessary, to ensure dividends of at least \$1,250 for fiscal years 2018 and 2019.

**Provision: Disposition of Income** AS 37.13.145(e)(f)

**CS for SB 26 - Version D:**

**House CS for SB 26(FIN) - Version U: Section 10** - Deletes subsection (f), created in the previous section, and amends (e) to conform to that deletion. This section takes effect June 30, 2020, when the dividend no longer has a minimum amount of \$1,250.

[8:10:37 AM](#)

**Provision: Appropriations to the dividend fund** AS 37.13.146

**CS for SB 26 - Version D: Section 11** - creates a new section which allows the legislature to appropriate 25% of the POMV amount calculated in AS 37.13.140(b) from the general fund to the dividend, for the purpose of paying dividends

**House CS for SB 26(FIN) - Version U:**

**Provision: Corporation Budget** AS 37.13.150

**CS for SB 26 - Version D:**

**House CS for SB 26(FIN) - Version U: Section 11** - Includes the unexpended balance of the Alaska Permanent Fund Corporation's budget in the calculation of the fund's market value; this budget balance is already calculated as a part of the net income of the fund under current law.

**Provision: Assets of the mental health trust** AS 37.13.300(c)

**CS for SB 26 - Version D: Section 12** - Clarifies that income from mental health trust fund, which is managed

by the Alaska Permanent Fund Corporation, is not included in the market value of the Permanent fund for purposes of distribution

**House CS for SB 26(FIN) - Version U: Section 12** - Same

[8:13:16 AM](#)

**Provision: Amount of dividend AS 43.23.025 (a)**

**CS for SB 26 - Version D: Section 13** - Amends to state that the dividend shall be calculated based on the amount appropriated from the general fund under AS 37.13.146.

**House CS for SB 26(FIN) - Version U:**

**Provision: Amount of dividend AS 43.23.025(c)**

**CS for SB 26 - Version D: Section 14** - States that the dividend for fiscal year 2018, 2019, and 2020 shall be \$1000.

**House CS for SB 26(FIN) - Version U: Section 13** - Adds new subsection (c) to state that notwithstanding the calculations outlined in (a), the dividend for fiscal years 2018 and 2019 shall be at least \$1250.

**Provision: Dividend fund AS 43.23.045(a)**

**CS for SB 26 - Version D: Section 15** - Amends to clarify that the dividend fund consists of money appropriated under AS 47.13.146

**House CS for SB 26(FIN) - Version U:** Deleted.

**Provision: Duties of the department AS 43.23.055**

**CS for SB 26 - Version D: Section 16** - Amends to clarify that the amount to pay the annual dividend moves from the dividend fund without need for further appropriation

**House CS for SB 26(FIN) - Version U: Section 14** - Same

[8:15:23 AM](#)

**Provision: Repealed**

**CS for SB 26 - Version D: Section 17** - Repealed July 1, 2017 AS 37.05.540(b)(c) -Existing SBR appropriation limit AS 37.13.145(b) - existing distribution of income AS 37.13.145(c) - existing inflation proofing mechanism **Section 18** - Repealed June 30, 2021 AS 43.23.025(c), \$1000 set dividend

**House CS for SB 26(FIN) - Version U: Section 15** - Repealed July 1, 2017 AS 37.13.145(c) - existing inflation proofing mechanism **Section 16** - Repealed June 30, 2020 AS 37.13.145(f) - appropriation for \$1250 dividend AS 43.23.025(c) - minimum dividend of \$1250.

**Provision: Uncodified law**

**CS for SB 26 - Version D: Section 19** - Provides the commissioner of revenue with the transition authority to implement regulations.

**House CS for SB 26(FIN) - Version U: Section 17** - states that for fiscal year 2017, the legislature may appropriate from the earnings reserve 5.25% of the market value of the fund (POMV), less the dividend already paid out for fiscal year 2017.

**Provision: Retroactivity**

**CS for SB 26 - Version D:**

**House CS for SB 26(FIN) - Version U: Section 18:** The previous section, section 17, is retroactively effective on June 29, 2017 even if the act takes effect later than that date.

**Provision: Conditional language**

**CS for SB 26 - Version D:**

**House CS for SB 26(FIN) - Version U: Section 19** - This act only takes effect if the legislature also passes and signs into law a broad based revenue measure and HB 111 as passed the House.

**Provision: Effective dates**

**CS for SB 26 - Version D: Section 20** - section 19 is effective immediately **Section 21** - section 8, changing the POMV rate, is effective July 1, 2020 **Section 22** - the rest of the act is effective July 1, 2017

**House CS for SB 26(FIN) - Version U: Section 20** - sections 17 and 18 take effective immediately **Section 21** - section 6, amending the POMV rate, takes effect July 1, 2019 **Section 22** - section 10, relating to the minimum dividend, takes effect June 30, 2020 **Section 23** - the remainder of the act takes effect July 1, 2017

Representative Wilson asked whether SB 26 contained HB 115, minus the income tax.

Ms. Hansen replied that the current bill was similar to HB 115.

Representative Wilson asked whether combining the two pieces of legislation had been vetted by the legislative legal division.

Ms. Hansen replied there had been no legal opinion attached to the bill. She shared that the legal team had used conditional language previously.

Representative Wilson asked whether conditional language was the same as intent language.

Ms. Hansen replied that conditional language meant that the bill would not be enacted as law unless the conditions stipulated in the legislation had been met.

Representative Wilson probed the difference between intent and conditional language. She was curious when conditional language had been used previously.

Ms. Hansen replied that intent language did not have impact on law. She furthered that conditional language stipulated that a bill can only become law after conditions are met. She added that there was a range of conditional language commonly found in appropriation bills and bills related to Medicaid reform.

[8:19:20 AM](#)

Co-Chair Foster noted that Representative Pruitt and Representative Guttenberg had joined the meeting earlier.

Vice-Chair Gara wanted to ensure the dividend portions remained the same in the bill. He summarized his understanding of the dividend payout described in the legislation.

Ms. Hansen replied in the affirmative.

Vice-Chair Gara referred to the senate's formula that had been modeled in the Legislative Finance Division (LFD) charts. He noted that the formula started at \$1000, then fell below \$1000 in 2021. He said that past charts he had seen predicted that the dividend would likely start out a little above \$1,250 and rise from there. He specified that

the formula he was discussing used the 67 percent general fund and 33 percent dividend formula.

Ms. Hansen answered the formulas were the same as in HB 115. She relayed that the \$1,250 guaranteed dividend would end in FY 19, which was the same year that the POMV calculation would transition from 5.25 percent to 5 percent. She believed that the projections hovered around \$1,250, growing at a modest rate thereafter.

Vice-Chair Gara recalled that the dividend under the house formula had been projected to start higher than \$1250 and had been projected to grow. He hoped to get the actual numbers from LFD at another time.

[8:21:44 AM](#)

Representative Thompson called to mind that the POMV in the current legislation had been likened to the POMV found in HB 115. He argued that the two were not alike because the \$1.2 billion dollar draw limit that had been written into HB 115 [by a vote of 9 to 1 by the committee] would be changed to \$1.4 billion and \$.80 on the dollar. He felt that the committee had voted, with good reason, on the \$1.2 million draw limit and dollar per dollar thereafter - because it would grow the fund and would make more money available for future dividends and government expenses.

Ms. Hansen replied that some members had hoped that any additional revenue in the out years could be available for deferred maintenance or certain one-time projects.

Representative Thompson felt that HB 111 [oil and gas tax legislation currently under consideration by the legislature] would stunt revenue growth and would result in the threshold in SB 26 ultimately never being reached.

Representative Pruitt cited conditional language in the bill; Page 8, line 10:

CONDITIONAL EFFECT. This Act takes effect only if the Thirtieth Alaska State Legislature passes and enacts into law in 2017

(1) legislation relating to a broad-based tax, directed to education, that is estimated by the Department of Revenue to generate annually at least

\$650,000,000, once fully implemented, and that has an effective date not later than January 1, 2019; and  
(2) the version of House Bill 111 that passes out of the House of Representatives.

Representative Pruitt suggested that the language could be illegal. He testified that the conditional language scared him and was dangerous and outrageous.

[8:25:59 AM](#)

Vice-Chair Gara disagreed. He explained that there had been attempts by some current lawmakers to use the permanent fund to fund the deficit, without raising other revenue, while paying oil companies credits and failing to expect those with the greatest financial privilege to contribute to a solution. He felt that a shrinking permanent fund would disproportionately affect the poorest in the state. He stressed that the fiscal plan should be fair for all Alaskans. He argued that the conditional language in the bill supported a balanced fiscal plan that would ensure those with privilege and wealth contributed equally to those that rely on their dividends for significant income.

[8:28:15 AM](#)

Representative Wilson disagreed. She believed that the language took away the ability of the other body to represent their constituents by vetting the bill. She argued that the broad-based tax would not be spent on education but could be used for anything. She thought that the language in (2) was unconstitutional. She lamented that the bill did not contain language to reduce the budget, rather continued to let it expand.

[8:30:51 AM](#)

Representative Wilson MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

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

OPPOSED: Pruitt, Thompson, Tilton, Wilson

The MOTION PASSED (7/4). There being NO further OBJECTION, Work Draft 30-GS1690\U was ADOPTED.

8:31:25 AM

RANDALL HOFFBECK, COMMISSIONER, DEPARTMENT OF REVENUE, expressed appreciation that the legislation was advancing through the legislative process.

Representative Thompson queried whether the legislation weakened the permanent fund and asked for a comparison of the current version to past versions.

Commissioner Hoffbeck answered that all of the bills that had POMV based versions and had contained similar draw components. He explained that the current bill reduced the draw from 5.25 percent to 5 percent one year earlier than the senate version and included the secondary provision of .25 percent inflation proofing on an annual basis.

Representative Thompson thought that the draw limit in the bill would impact the overall health of the fund.

Commissioner Hoffbeck replied that the bill did increase the chance of failure, but not significantly.

8:34:48 AM

Vice-Chair Gara offered a brief history of the conversation surrounding the draw limit. He understood that the draw limit could be written into statute but that other legislatures could not be constitutionally bound to follow suit.

Commissioner Hoffbeck agreed that anything in statute could be changed by future legislatures. He thought that the idea behind putting the formula into statute was to provide guidance to future legislature in no over-drawing the permanent fund.

Vice-Chair Gara surmised that everything in statute would be subject to appropriation and so, would be unenforceable.

Commissioner Hoffbeck replied in the affirmative.

Vice-Chair Gara believed the administration's concern was valid. He spoke to low capital budgets in recent years. He spoke to the draw limit and the validity of the concerns of the administration. He understood that the draw limit

applied to production taxes and earnings reserve draws, combined.

Commissioner Hoffbeck replied that the trigger was the growth of production tax and royalties; oil and gas revenues.

Vice-Chair Gara probed the royalty figures.

Commissioner Hoffbeck replied he would have to run the numbers. He guessed that they stood at approximately half of \$1.2 billion.

Vice-Chair Gara surmised that the largest portion of the state's revenue would be the POMV draw, plus royalties, plus production tax.

Commissioner Hoffbeck replied in the affirmative.

Vice-Chair Gara expressed concern that the draw limit could result in a flat revenue situation over the next decade, leaving the state unable to keep up with inflation and population growth and could result in additional internal budget cuts. He wondered whether there was a way to craft the draw limit to allow it to adjust for population and inflation growth.

[8:41:34 AM](#)

Commissioner Hoffbeck replied the other large component to consider was other revenues, which was not included in the draw limit - about \$400 million per year - the biggest component being oil and gas corporate income tax. He stated that there would be growth in the general economy that would not be caught under the cap. He relayed that a broad-based tax would be captured outside of the cap as well, which would allow for growing expenditures overtime. He noted that the cap had been included in the bill as a way to balance the amount of revenues available for government services in high revenue years, with the amount available in low revenue years. He related that if the intent of the legislature was to have more room on the higher end, the start would need to be at a lower base to assure that the fund was not overdrawn. He stressed that all the components needed to maintain balance.

Vice-Chair Gara understood that some of the revenue may increase with inflation, but the bulk of the revenue would be subject to the flat limit, approximately \$3.5 billion. He thought that revenue would remain flat and could fall behind inflation every year. He wondered whether the limit could be written to ensure that the reality of inflation and population growth were reflected realistically.

Commissioner Hoffbeck clarified that the oil and gas taxes and royalties were not limited and would grow. He said that the only number that would go down would be the permanent fund draw. He shared that the permanent fund was now being added to the equation because there were insufficient revenues, under the current system, to pay the state's bills. He held that as oil and gas tax revenues, and other revenues grew, the state would have sufficient funds to pay bills. He furthered that if the threshold point were reached where the state had enough in revenue from oil and gas taxes and other revenues to pay the bills, it would make sense to cease drawing from the permanent fund.

[8:46:36 AM](#)

Vice-Chair Gara maintained his concern that the overall revenue would not grow within the draw limit set in the legislation.

Commissioner Hoffbeck replied that the reason for the draw limit was to recognize that the earnings reserve needed to be used in the immediate but might not be necessary into the future. He stressed that the draw would cease once the need subsided and was not intended to be a permanent source of income for the state.

Vice-Chair Gara agreed that the state should find a way to limit the draw from the earnings reserve. He reiterated his question about inflation and population growth. He wanted to use some portion of funds to keep up with those items.

[8:49:33 AM](#)

Commissioner Hoffbeck replied that the CS allowed for headroom by going \$.80 on the dollar. He reminded the committee that under current revenues there was \$600 million in headroom for growth before the limit was reached.

Representative Wilson relayed that the committee had heard from Ken Alper, Director, Tax Division, Department of Revenue that HB 111 did constitute a substantial tax change on the oil and gas industry. She wondered whether the change could have negative repercussions.

Commissioner Hoffbeck cited the immediate fiscal deficit necessitated that all things should be on the table for consideration. He stated that everything that the state did would have an impact somewhere. He said that HB 111 still needed to work its way thorough the senate and could look different after it traveled through the legislative process.

Representative Wilson argued that the conditional language did not allow for the senate to make changes to HB 111 She asked if the administration had a position on the current version of HB 111.

[8:52:31 AM](#)

Commissioner Hoffbeck replied that the legislation was a strong statement from the house majority. He felt that the bill would ultimately end up in a conference committee. He believed that that committee would weigh all iterations of the legislation, including the conditional language in the current version.

Representative Wilson thought that that administration would want to be involved in the crafting of the legislation. She asked whether the administration believed that SB 21 was helping to increase oil production.

Commissioner Hoffbeck replied the department had answered the question many times. He said that it was not possible to say definitively whether SB 21 was responsible for additional oil production in the state. He stated that most of the fields that were currently online had been in the works before the passage of SB 21.

Representative Wilson asked whether the administration was confident companies would continue work on new fields, or pursue other options elsewhere, if the tax system changed.

Commissioner Hoffbeck answered that as long as the legislature was split 50/50 on whether the current tax structure was the appropriate tax structure, there would

always be a large amount of uncertainty in the underlying tax structure. He believed that the state needed to get to a tax structure that enough people supported to let it stay in place for a significant period of time. He stressed the need to create a fiscal plan that included a stable oil and gas tax policy. He contended that industry could not make investment decisions if the rules continually changed.

[8:56:31 AM](#)

Representative Wilson did not believe there was anyone on the committee who believed the tax credits did not need to be dealt with. She contended that HB 111 would increase taxes for industry, which would result in a decrease of industry investment and activity in the state.

Commissioner Hoffbeck replied that when oil prices collapsed the state lost 90 percent of its revenue. He shared that the next largest loss in revenue was in North Dakota, while Texas lost less than 1 percent of their revenue. He said that the compounding effect of the state reliance on oil and gas, plus a net tax system that exaggerated the impact of lower prices, had brought the state to a point where the tax needed to be reexamined. He said that the state had taken a hit in its tax revenue that had far exceeded hits taken by other tax regimes.

Representative Wilson countered that Alaska could not be compared to Texas because of the costs and regulation faced by industry to do business in the state. She felt that the state already took too much from the oil industry in the way of taxes. She warned that an increase in taxes would yield poor results for the state.

[8:59:22 AM](#)

Representative Pruitt asked whether it could be expected for the governor to weigh in on his opinion of HB 111, should the bill pass the house.

Commissioner Hoffbeck replied that the administration would weigh in on components of the bill during future testimony before the senate.

Representative Pruitt felt that the conditional language negated the administration having specific opinion on certain bill components; the administration would have to say "yes" or "no" to the bill as an entire package.

Commissioner Hoffbeck responded that the conditional language in the bill was strong statement by much of the committee of their intent to pass a full fiscal plan, including oil and gas tax reform and a broad-based tax. He thought that conference-able provisions of the legislation would be considered in a conference committee on the bill.

Representative Pruitt asked why the administration had introduced SB 26 and why it was needed.

Commissioner Hoffbeck answered that the state was in immediate need of a plan that offered a certain amount of revenue, while protecting savings from total depletion.

[9:01:41 AM](#)

Representative Pruitt understood that the administration felt structure was necessary.

Representative Pruitt recalled testimony that said that the legislature could act under its own direction and did not need a revenue limit.

Commissioner Hoffbeck replied that the administration would always assume the legislature would follow its own rules.

Representative Pruitt asked whether the governor had a statement about whether the state should have a bicameral or unicameral legislature.

Commissioner Hoffbeck replied that he had no knowledge of the governor's opinion on the matter.

Representative Ortiz asked whether the potential payback amount for earned tax credits had any impact on the \$1.2 billion to \$1.4 billion draw limit.

Commissioner Hoffbeck responded it would not have an impact on the draw limit.

Vice-Chair Gara queried the commissioner's opinion as to whether the legislation would provide a fiscal plan that protected the state's economy.

[9:05:10 AM](#)

Commissioner Hoffbeck answered that the bill would not get the state to the finish line on its own. He said that a broader fiscal plan that accompanied the use of the permanent fund would be necessary in order to not deplete the funds savings. He relayed that this was the largest component of the fiscal solution, but without substantial expenditure reductions or a broad-based tax that would generate \$600 million to \$700 million the budget gap would not be filled.

Vice-Chair Gara expressed concern for the future of the state's economy if the budget gap was not solved. He asked if a partial plan would be dangerous to the economy.

Commissioner Hoffbeck answered that a partial plan did not take the uncertainty out of the equation. He stated that it would be necessary to achieve a full plan. He clarified that the entire plan did not have to be implemented in the current year, but a plan needed to be made and communicated to the public.

[9:07:35 AM](#)

Representative Wilson stated the bill anticipated \$650 million from Alaskans in the form of a broad-based tax. She thought that the people in support of the bill wanted to would kill the oil industry. She asked whether the legislature was looking at other taxes that were not in the bill.

Co-Chair Seaton believed there was confusion about the topics included in the bill. He clarified that the conditional language in the CS instituted a full fiscal plan, including: oil and gas taxes and credits, permanent fund draw, an income tax, and a motor fuel tax was included in the budget as well. He noted that the bill contained delayed effective dates in order to implement each component according to timed intervals. He believed that all of the components passed together would balance the state budget by 2021.

[9:11:02 AM](#)

Representative Wilson expressed confusion on the topic of discussion.

Representative Pruitt wondered whether public opinion would influence the committee's decisions concerning the state's fiscal crisis.

Co-Chair Seaton replied that the committee had heard public testimony on all the elements contained in the legislation. He noted that changes had been made in the bill concerning an income tax, based on the public testimony that had been received. He added that testimony on the draw limit had influenced the current bill version. He stressed that further public testimony for the bill would be taken and was a critical part of the legislative process.

Representative Pruitt referred to a survey put out by Co-Chair Seaton's office that resulted in 67 percent responding in opposition of an increase of oil and gas production taxes for companies in Alaska. He added that a follow up with Mr. Ruggiero had indicated that HB 111 would result in a substantial increase in those taxes. He thought that the majority of public opinion clearly opposed HB 111 and queried why HB 111 had ended up a key component of SB 26.

Co-Chair Seaton rebutted that public opinion had been taken into consideration. He stressed that the legislation had been crafted based on decisions grounded in the reality of the fiscal situation. He argued that the problems of the state could not be solved by simple surveys and he noted that on the senate side the majority of public opinion had favored a broad-based tax of some kind. He clarified that public testimony could inform the conversation, but that legislation was ultimately crafted by elected officials and not the public.

[9:15:26 AM](#)

Representative Guttenberg had a different opinion than the legislative consultant Rich Ruggiero. He felt that public opinion had not weighed in heavily on one side or the other. He felt that the fiscal crisis had been looming for many years. He recalled the economists that had testified before legislature of the fiscal cliff it was approaching and how it could be handled. He believed that action needed to be taken in order to stabilize the economy and that the tools were available for immediate action. He stressed that there was a difference between what oil company representatives said at the testifier table and what they

said around the world. He believed that they were paid to put pressure on the legislature to hold oil companies harmless in the process of righting the state's economy.

9:20:30 AM

Vice-Chair Gara asked for verification the committee was not in final debate on the bill and that amendments would still be accepted.

Co-Chair Foster agreed.

Vice-Chair Gara expressed concern over additional budget cuts and the effect it would have on jobs in the state. He thought that passing a budget that resulted in further job losses to the state would destroy the economy.

9:22:27 AM

Representative Pruitt asked whether the committee would support any of the amendments offered by the minority. He lamented that the committee had not accepted any of his amendments during the current legislative session.

Co-Chair Seaton believed that the statement was untrue. He recalled that an amendment had been removed from consideration because it violated the single subject rule. He said that well crafted amendments would be considered by the committee.

Representative Pruitt wanted assurances that his amendments would be considered. He suggested removing Section 19 of the bill and doubted that the idea carried much support from the committee. He wondered whether the amendment process would be a waste of time.

Co-Chair Foster wanted to ensure the public had an opportunity to weigh in. He relayed that amendments would be due the following day at 11:00 am. He recessed the meeting to a call of the chair [note: the meeting never reconvened].

Representative Wilson clarified the bill version.

Co-Chair Foster restated the version before the committee.

Co-Chair Foster recessed the meeting to a call of the chair. [Note: the meeting never reconvened].

#

ADJOURNMENT

[9:25:57 AM](#)

The meeting was adjourned at 9:25 a.m.