

HOUSE FINANCE COMMITTEE
January 30, 2018
9:08 a.m.

9:08:45 AM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 9:08 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 Mark Neuman (alternate)
Representative Dan Ortiz
Representative Lance Pruitt
Representative Steve Thompson
Representative Cathy Tilton

MEMBERS ABSENT

Representative Tammie Wilson

ALSO PRESENT

Arnold Liebelt, Staff, Representative Paul Seaton; Alexei Painter, Analyst, Legislative Finance Division; Tim Parker, President, NEA Alaska; Chris Benshoof, Teacher, Fairbanks; James Harris, Teacher, Soldotna; Amy Jo Meiners, Teacher, Juneau; Patrick Mayer, Superintendent, Wrangell; Representative Justin Parish, Sponsor; Lisa Worl, Staff, Representative Justin Parish; Alexei Painter, Analyst, Legislative Finance Division; Mike Barnhill, Deputy Commissioner, Department of Revenue.

PRESENT VIA TELECONFERENCE

Paul Kendall, Self, Anchorage; Brian Bjorkquist, Senior Assistant Attorney General, Department of Law.

SUMMARY

HB 213 PUBLIC SCHOOL TRUST FUND

HB 213 was HEARD and HELD in committee for further consideration.

HB 287 APPROP: EDUCATION/STUDENT TRANSPORTATION

HB 287 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the meeting agenda.

#hb287

HOUSE BILL NO. 287

"An Act making appropriations for public education and transportation of students; 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."

9:10:05 AM

Co-Chair Foster relayed that his office had not received any amendments from committee members.

ARNOLD LIEBELT, STAFF, REPRESENTATIVE PAUL SEATON, introduced himself.

ALEXEI PAINTER, ANALYST, LEGISLATIVE FINANCE DIVISION, introduced himself.

Co-Chair Foster noted the testifiers were available for questions.

9:11:23 AM

Representative Thompson stated the bill concept was a good idea, but he believed it had not been sufficiently vetted. He thought it was premature to force the legislature into a three-quarter vote to use Constitutional Budget Reserve (CBR) funds before the legislature had determined what it wanted to do with the entire budget. He stated there had not been many meetings on the bill where the committee had been able to hear from the entire public. He noted the only

testimony had been invited, such as school superintendents. He thought the bill usurped the budget process. He asked if the committee was doing the finance subcommittee's work. He reiterated that it was a good idea, but it was too early. He asked for the current CBR balance.

Mr. Painter replied that that the CBR balance was projected to be \$2.146 billion at the end of FY 18.

Representative Thompson reiterated that he was not comfortable with considering the legislation so early in the legislative session, which would force a three-quarter vote [by the legislature].

Representative Pruitt believed the funding amount in the bill was the same amount proposed by the governor. He asked for the accuracy of his statement.

Mr. Liebelt replied in the affirmative.

Representative Pruitt asked if anyone had spoken with the Senate to determine if the amount was a bone of contention.

Co-Chair Seaton replied that he had spoken with members of the other body, including finance members, who had indicated they did not plan further cuts to K-12 education. He stated that the amount in the legislation was the same funding level as the prior year. He remarked that the other body had not taken any action on the issue because it had not received the budget. The charts in member's packets showed a slight drop in the budget from the preceding year due to lower than projected pupil enrollment. The FY 18 management plan was estimated to be the governor's number and the number in HB 287 based on the actual amount funded in FY 17. The charts showed a slight dip, but it did not represent a real dip because it was the actual number paid out based on the precise student count.

Representative Pruitt did not propose cuts to education either. He believed the only argument for the passage of the bill was related to expectation there would be a failure in understanding the amount that would be available. He stated the committee had heard in a presentation the prior week that there were several dates associated with education budgets, including May 15 (pink slip deadline for nontenured teachers) and May 31 (pink slip deadline for tenured teachers). He thought the bill

represented an expectation of failure by the legislature to get a budget passed in 90 days. Yet, the legislature had an understanding on education. He agreed that the budget could be planned on the data in the bill. He also believed the legislature would finish its work in 90 days. He believed the bill was unnecessary. He thought the bill merely bifurcated the budget and he wondered what was next.

Representative Pruitt questioned whether other items such as health and public safety would be pulled from the overall budget for separate consideration. He noted that the budget would be piecemeal. He added that the [Department of Revenue] spring forecast, which would provide a better representation of the state's full revenue source would not come out until April. He noted the release date also depended on whether the administration chose to hold onto the forecast longer as it had the previous year. He asked what the need for the bill was at present. He stated that if there was alignment he did not understand the need for the bill.

Co-Chair Seaton discussed early funding of education in order for municipalities and school districts to construct their budgets. He did not believe there was complete agreement on all budgetary items, knowledge of what the spring forecast would be, or agreement on the amount to be taken from the [Permanent Fund] Earnings Reserve Account (ERA). He did not believe school districts and municipalities could plan their budgets around the belief that the House and Senate and the governor all agreed on what the number would be. He compared the unknown situation to a scenario where the legislature passed a bill that was signed by the governor. He noted that signed legislation was security that had not been provided by the legislature in the past, which had been a problem.

[9:19:15 AM](#)

Co-Chair Seaton continued to address Representative Pruitt's question. There had always been the insecurity of leaving the education budget to the last item [to be negotiated]. He stated that unless a separate bill was passed with money attached that the governor could sign, the legislature would not be early funding education. Assuming there would be agreement on the amount that would be passed was not the same thing as a passed budget. He stated that until legislators voted on something it was not

possible to know what would happen. The purpose of the bill was to take the issue off the table and prevent layoffs or districts from having to construct two budgets because things changed in midstream. He stated that if the legislature wanted to early fund education, they should early fund it; if not, education should be left in the regular budget. He believed education should be early funded. He stated that education funding was vital, and the bill would fund it at the last year's level.

9:21:12 AM

Representative Pruitt surmised that it sounded like there was a failure to communicate. He clarified he had not stated there was alignment on everything, but from what he understood, there was alignment on education funding. He did not understand the need to push the bill from committee at present when it sounded like there had been multiple conversations with members from the Senate about their alignment on the topic. He did not understand why they could not wait a few days to determine whether there was alignment in the Senate as a whole. He cited May 15 and May 31 as failure dates, which were 30 days after the legislature was supposed to be finished with its work.

Representative Pruitt remarked the bill would pull \$800 million more from the CBR than the estimate provided in the initial presentations. He stated that it would mean pulling more money out of an account than was potentially needed. He stated that on July 1 it would mean pulling \$1.2 billion out of an account that earned 1.86 percent in 2017 instead of using money from the General Fund, which could be pulled out over the course of the year. He detailed the General Fund had made 1.56 percent in 2017. He remarked that the difference may not seem substantial, but 1 percent of billions was significant. He thought they were pushing forward on something without communicating with the other body. He reasoned that if there was alignment the bill reflected an expectation of failure. He requested to hold off on taking action for several days in order for a discussion to take place with the Senate.

9:23:30 AM

AT EASE

9:26:51 AM

RECONVENED

Co-Chair Foster noted there were several questions and that a slide had been put up on the screen. He relayed his intent was to hold the bill a couple of days to hear public testimony on Thursday. He wanted to allow extra time to communicate any concerns.

Vice-Chair Gara stated that the most important professionals in the state were becoming demoralized. They were leaving positions with the University and the education system because they did not know whether they would have jobs the following year. He remarked that the past few years there had been legislators asking for \$67 million in education cuts at the last minute. He believed if legislators were all agreeable that no one would do that during the current session, they should deal with the education budget at present. He spoke to the concept of passing a budget on time. He supported that goal but pointed out that there had not been a great history of passing a budget on time in recent years. He did not want to send pink slips to teachers. He stressed that some of the best teachers were leaving the state. He reasoned that when those individuals were lost it meant the state's education system suffered.

Vice-Chair Gara lauded Co-Chair Seaton for filing the bill because it reflected a discussion the legislature had been having for a long time. He spoke about threats that individuals would lose their jobs. He supported the bill. He stated that unfortunately with the differing opinions about a fiscal plan something had not passed. He supported a fiscal plan. He pointed to decisions made by the legislature the previous year when the savings account had been drawn down substantially. He stated that the remaining sources of revenue were very controversial. He believed the bill had to pass. He was glad to hear that others did not want to further cut education. He supported an inflation adjustment for the losses in education funding. He believed the bill was something all legislators could agree on.

[9:31:28 AM](#)

Co-Chair Foster repeated that he planned to hold the bill until Thursday for more public testimony. The committee would hear public testimony during the current meeting as well.

Representative Neuman thanked Co-Chair Foster for the opportunity to ask questions. He asked how to prioritize funding of teachers over state troopers and everyone else. He spoke about decisions that needed to be made included what funds to use to fund a budget. He detailed that the previous year there had been a decision made by the House Majority not to fund any budgets until taxes and use of the Permanent Fund Dividend bills were passed. He stated the legislature could pass a bill like HB 287 and it would still not matter. He asked about how to utilize the current fund. He agreed that giving industry and schools an idea of what the funding would be would be helpful as soon as it was possible to do so; however, the state was experiencing difficult financial times and the decisions were difficult. He thought tying up the available funds in the different pots of money could be very difficult for the legislature. He wanted to get more information on the topic.

Representative Neuman spoke about personnel costs - it had been mentioned that the bill was highly supported by many members. He was not able to support the bill due to questions he had. He stated there was no reason why the Senate and House could not get together early on to give the education industry an idea of what the funding would be. He reiterated his thanks for the time to consider the bill.

Co-Chair Foster reiterated that public testimony would be reopened later in the meeting and on Thursday.

[9:35:01 AM](#)

Representative Tilton echoed comments made by her colleagues. She wondered about the funding priorities for the different departments and agencies. She mentioned the education subcommittee process and questioned whether the bill put the cart before the horse. She spoke to the remaining CBR balance and available funding and asked if figures accounted for increased oil prices.

Mr. Painter replied in the negative. The projections of the CBR balance at the end of FY 18 assumed the [Department of Revenue] fall forecast, which he believed used a \$56 per barrel price in FY 18.

Representative Tilton remarked that the projection was at \$56 per barrel, but the other day the price was \$70. She asked if her statement was accurate.

Mr. Painter replied in the affirmative.

Representative Tilton surmised there was an opportunity for some increased balances in state savings accounts.

Mr. Painter answered that if prices held at \$70 for the remainder of the fiscal year there would be an additional \$200 million in the CBR; the balance would be \$2.3 billion instead of \$2.1 billion.

Co-Chair Seaton spoke to an earlier question about whether the legislation was taking over the responsibility of the finance subcommittee. The portions included in the bill were in statute including the Base Student Allocation (BSA) and pupil transportation, which were not considered by the finance subcommittee. He clarified that the bill did not fund the entire education budget including pre-K, teacher mentor programs, and the Department of Education and Early Development (DEED) - those items were still under the purview of the education subcommittee.

Co-Chair Seaton furthered that the bill also considered other portions where people were required to receive layoff notices by state law including boarding schools and Mount Edgecumbe. The bill funded basic K-12 education, which was where the agreement resided. He stated there was no agreement on things like bond debt reimbursement for schools. The bill addressed the portion of education and employees that were different than state troopers. He detailed that state troopers were not required to receive layoff notices May 15 through June. Troopers may go on furlough on July 1 if a budget was not finished, but the bill pertained to the only segment of government where there was a law requiring advanced layoff notices. The bill's purpose was to ensure the school districts and municipalities working to fulfill state law were not negatively impacted.

Co-Chair Seaton clarified there were four groups within the legislature (two in the Senate and two in the House). He elaborated that no caucus had a three-quarter vote within its membership. He explained that if the items were left in the operating budget they would need agreement between the

four groups without a vote. He did not know that the option was a secure way to ensure the funding for education. The purpose was to identify a funding source and agree or not agree to fund education early. He explained it would mean the education funding would be a known amount, which would be attached to the funds identified in the budget bill. The way to gain full knowledge and security was to have a vote. He appreciated Co-Chair Foster reopening public testimony.

[9:41:18 AM](#)

Representative Ortiz responded to an earlier question about whether the bill bypassed the subcommittee. He relayed that the subcommittee had discussed the issue and had already heard all portions of the sections included in the bill with the exception of Mount Edgecumbe. The subcommittee was scheduled to hear about Mount Edgecumbe the following day. He relayed the subcommittee had not been bypassed.

Representative Neuman stated that generally the supplemental budget could get rolled into the capital or operating budget. He asked if the bill was a standalone appropriations bill.

Co-Chair Seaton replied in the affirmative. The bill was a complete budget bill that identified the funding sources. He explained that if it passed it would go to the governor for his signature. The bill's passage would result in the removal of the sections in the general operating budget. He detailed that HB 287 was an operating budget bill for basic K-12 education. The bill was a way to fund education early.

Representative Neuman stated that the legislature was statutorily required to pass an operating budget. He noted there were ways to interrupt the bill if desired. He elaborated that the legislature had statutorily required budgets it had to pass every year. He asked if the bill would fall under the same statutory requirement.

Co-Chair Seaton answered in the affirmative. The bill was a portion of the operating budget and would have the same qualifications as any other.

[9:44:10 AM](#)

Vice-Chair Gara remarked that the committee was not really supposed to talk about what the Senate would do per the

Mason's Manual. He emphasized that individuals impacted by the legislature's failure to pass a budget on time were angry. He stated that for three years in a row the legislature had told teachers they would possibly face \$67 million in education cuts. The legislature had an opportunity to tell teachers they would not face cuts in the current year. He shared that a teacher friend was leaving the state because he was fed up with the threats of cuts and receiving pink slip notices. He underscored that the state was losing its best teachers. He detailed that state employees receiving pink slips took the issue seriously. The bill provided an opportunity to communicate to the education system that they would not face cuts in the current year. He underscored that the state was losing its teachers. The bill was an attempt to ensure that the best teachers remained in Alaska. He hoped the legislature could come together in agreement that further cuts to education were not appropriate.

[9:46:25 AM](#)

Representative Guttenberg remarked that the committee had ample opportunity to have discussions. He requested to hear public testimony if people were waiting.

Representative Grenn asked about the timing and need to get the bill passed and to the governor as soon as possible. He stated that May 15 was the statutory deadline regarding nontenured teachers. He relayed that the Anchorage School District had to report its budget to the municipality by March 1. He believed securing funding by that point would provide morale for the district to know the legislature was focused on education as a priority for Alaska. He detailed that due to years of pink slips the morale was low. He believed the bill would go a long way in showing the legislature's support. He supported moving the legislation quickly.

Representative Pruitt spoke to a comment about an earlier statement about trying to get the four caucuses together on a CBR vote. He thought the bill appeared to be trying to take the CBR discussion off the table at present, which he viewed as a usurpation of the power of the Minority in some cases. He recalled a letter written on May 20, 2015 signed by several members including the co-chairs, which indicated that five days after the pink slip date for nontenured teachers they wanted to continue the negotiations with the

Minority caucus to obtain the number of votes needed to access the CBR instead of using the ERA. He noted that the ERA would be utilized without the vote of the people for which they requested.

Representative Pruitt continued that even then there had been an argument from members of the House that usurping the power of the Minority was not something they wanted to go forward with. He believed what he had heard about HB 287 was the desire to get the issue off the table so there was an ability in the long run to (after \$800 million was pulled from the CBR - more than was necessary based on prior testimony) go forward without the need or necessity of having the voices of the people that may find themselves not in the Majority. He believed the issue should be laid on the table if it was a concern from the past. He stated that the House Majority [in 2015] had taken the other members' concerns into account and had allowed the Minority to continue to play the role everyone would expect. He believed it was important to take into consideration. He reiterated the current discussion seemed like an attempt to eliminate the House Minority's ability to participate in the full budget process.

[9:50:31 AM](#)

Co-Chair Seaton spoke to the \$800 million and reminded the committee that they were talking about a potential ERA draw that was unsustainable, which was based on a 6.95 percent annual return. He elaborated that the Alaska Permanent Fund Corporation (APFC) Board of Trustees had adopted the actuarial amount of 6.5 percent, which was essentially 0.5 percent down in the board's long-term projection in return on investment. He wanted to make sure the issue was considered.

Representative Pruitt stated that Co-Chair Seaton had just highlighted why the issue was challenging. He continued that the bill tried to put together pieces of a puzzle without knowing what the puzzle looked like. He explained that going forward with the bill would make certain assumptions and force certain things to be the reality when it came time to put the budget together. It was part of the reason he believed the budget needed to move forward together instead of in pieces. He reasoned they did not know exactly what the revenue or spending pictures would be

all at the same time, which made it very difficult to put the whole thing together.

[9:52:23 AM](#)

Representative Thompson remarked on a statement made by Co-Chair Seaton that if the bill passed, the sections would be removed from the full budget. He wondered what would happen if the legislature decided it needed to add more money to the education budget for something like pupil transportation. He reasoned it would mean the need for another standalone bill. He stated the subcommittee process had not been completed to determine whether changes would be needed. He was concerned about pulling the items from the budget.

Co-Chair Seaton clarified that nothing precluded the budget from having additional money on the topics. For example, the legislature could choose to add additional pupil transportation funding if it chose to do so. The bill would fund the BSA and pupil transportation at the prior year levels. He explained that the legislature could put something else in the budget if decided to do so. The bill would be signed by the governor as the specific amounts, but nothing prevented additional funds in the operating budget.

Representative Neuman had heard from the sponsor that the bill would be a standalone operating appropriations bill that would be required statutorily just as the operating budget was. He asked for verification of his understanding.

Co-Chair Seaton answered that the bill had the same parameters as a supplemental bill. He explained that a supplemental could change or add additional money. There was no constitutional or statutory requirement for the operating budget to be passed as one piece.

Representative Neuman believed a statutory change would require a three-quarter vote on the floor and a public vote. Alternatively, he wondered if the bill was an operating budget bill that was statutorily required. He believed Co-Chair Seaton had answered in the affirmative. He stated that if the bill was like a supplemental that rolled into another budget or was included in an operating budget, the legislature could decide to fund it or not (as had occurred the previous year with other appropriations

bills in the operating budget). He stated that the governor could decide to fund the bill at a lesser value as had happened with the Permanent Fund Dividend in the past. He did not know if it was possible and requested to find out.

Co-Chair Seaton clarified that it would be a budget bill just like the fast track supplemental the legislature could pass. He did not mean that the legislature could not pass an appropriation without a statutory requirement. However, the bill under consideration in the Senate looked at a statutory requirement that future legislatures to pass budgets by certain times. He explained that HB 287 was the mechanism to accomplish the goal in the current year.

Co-Chair Foster recognized that Representative Kawasaki had joined the meeting.

Mr. Liebelt clarified there was an error on the last slide of a presentation [slide 8] he had provided ["HB 287 Education and Pupil Transportation: An Early and Stand-alone Appropriation Bill" dated January 25, 2018 (copy on file)]. He corrected that the slide should read that nontenured teachers had to receive notices by May 15 and tenured teachers had to be notified the end of the school year.

[9:58:10 AM](#)

Co-Chair Foster OPENED public testimony [public testimony had also been heard the preceding week].

TIM PARKER, PRESIDENT, NEA ALASKA, spoke in favor of the legislation. He thanked the co-chairs and bill sponsors for the opportunity to express support. He stated that educators in Alaska cared a lot about student learning, it was the driving force that pushed educators. He spoke to the positive motivation in the classroom. He argued that HB 287 was poised to fix some problems with the particular situation. He recalled the delay in funding the previous year and how it had impacted school districts and specific schools. Districts had handed out pink slips in record numbers, with the thought that unfortunately the pink slips would be rescinded, which they had been.

Mr. Parker detailed that between the time they issued pink slips and rescinded them many of the best and brightest teachers had left the state. He noted the ramifications of

passing out those slips. He wanted to see the focus on the necessary things that were important to education. He mentioned the Alaska Education Challenge and noted there would be a press conference later in the day with the commissioner; NEA was trying to lean into things that would help districts make better decisions about how to increase and maximize student learning. Delayed funding meant districts were not focused on what they should be. He spoke to the importance of providing funding stability. He reiterated NEA's support for HB 287.

[10:01:57 AM](#)

Representative Grenn stated that the Anchorage School District submitted its budget to the municipality by March 1. He asked if it was a common deadline throughout the state.

Mr. Parker responded that that deadlines were not all the same, but it was common for budgets to be submitted by the districts early and then funding mechanisms were addressed with their boroughs. There had been discussion about whether April 1st was the right date. Experts had communicated that going anywhere after April 1 risked putting schools in positions of providing pink slips. Due to the various steps required in the school budget process, NEA had been told that April 1 was an important date to make sure the legislature had acted by that time. In past years education funding had been passed a bit later than April 1 and districts had managed to avoid pink slips.

Co-Chair Seaton remarked that there had been some confusion on when tenured and nontenured teachers needed to be notified about layoff. He believed tenured [nontenured] teachers had to be notified by May 15. He asked if many of the contracts required that nontenured teachers be laid off prior to tenured teachers. He surmised that new teachers were laid off prior to laying off tenured teachers.

Mr. Parker replied in the affirmative. He detailed that different districts had different contracts, but the net result was the same in most districts. The other factor was the number of nontenured teachers versus tenured teachers in a particular district - it varied by district.

[10:05:14 AM](#)

PAUL KENDALL, SELF, ANCHORAGE (via teleconference), did not believe the past speaker should qualify as public testimony. He addressed the concept of pink slips. He thought it was malfeasance or corruption. He stated there were secret negotiations of public employees. He did not support unions. He stated that the legislature had stolen the dividend from residents. He believed the education industry was corrupt. He thought wages should be cut. He thought the entire system was mismanaged.

Co-Chair Foster asked testifiers to not disparage other testifiers and to stick to the legislation.

10:09:51 AM

CHRIS BENSHOOF, TEACHER, FAIRBANKS, spoke in support of the legislation. He shared that a fellow teacher had routinely been given pink slips - she had been teaching for 11 or more years and the routine pink slips were demoralizing. The uncertainty meant teachers and students were uncertain about the following year. The uncertainty led to significant testimony to the local school board - teachers were concerned about their positions and programs and then students and families heard about the issues as well, which caused uncertainty for students. He referenced the Alaska Education Challenge - one of the commitments was that schools were safe places for students where safety and well-being was cultivated.

Mr. Benshoof believed the instability students had to deal almost annually with was difficult. He shared that the previous year the district had been asked to create a plan for how to deal with flat funding. He detailed the plan had been two to four staff fewer, an increase in parent/teacher ratio, and a decrease in enrollment. About one week into that process they had been asked to make a plan b that would include an additional teacher cut. Ultimately, the district had been asked to come up with a plan c, d, and e over the remainder of the year. He was in favor of the bill and appreciated the committee's time and attention.

10:13:02 AM

JAMES HARRIS, TEACHER, SOLDOTNA, testified in favor of the bill. He shared that he was the 2017 Alaska teacher of the year and he had spent most of the year focused on the issue. He explained that it was an issue for teachers,

students, and communities. The Soldotna School Board had been faced with developing multiple budgets and administrators had made multiple plans. He discussed that the Soldotna High School had numerous initiatives it would like to offer, but it did not ever know if the ability was there. The high school did not ever know how many teachers may need to be cut and whether electives could be offered. He recalled that two years back the school had not known whether it could offer AP [advanced placement] classes, which created instability for students. He believed one thing that all Alaskans wanted was to provide stability for kids. He stated that kids felt undervalued - he believed the current generation of students needed to feel valued. He relayed that the borough assembly also had to hold off on its budget because it did not know how much it would be able to give to help the school district. He thanked the committee for its work. He supported stability for students in the long-term.

Representative Guttenberg thanked Mr. Harris for being teacher of the year and for the efforts he had put into education.

[10:15:29 AM](#)

AMY JO MEINERS, TEACHER, JUNEAU, testified in support of the bill. She shared that she was the 2016 Alaska teacher of the year and a mother of three daughters who had gone through the Juneau school system. She recognized that the school calendar did not fit neatly into a fiscal calendar or a January/December timeline. She stated that pink slips went out in May, but job fairs were held in March. She explained that teachers booked travel in February for the March job fairs. The instability played out for students in many ways. She shared that her youngest daughter was a senior and had given tours to incoming freshman who were deciding between the two Juneau high schools. Many of the questions had been about what courses were offered and what teachers would be there. All the instability played out in the spring. She thanked the sponsor for putting the bill forward and thanked the legislature for the discussion it was having about education. She hoped the headlines would read about the positive movement for education going forward. She thanked the committee for its consideration of passing an education bill that would stabilize the options for children.

[10:17:33 AM](#)

PATRICK MAYER, SUPERINTENDENT, WRANGELL, spoke in support of the legislation. He thanked everyone who had a hand in sponsoring the bill. He stressed the importance of the bill for the stability of education in Alaska. Early funding allowed districts to get teacher contracts signed early enough so they were not lost to other states. He spoke to statistics suggesting that if teachers were given pink slips they would leave for jobs in other states. Additionally, there were fewer job candidates. He shared that he had been in Alaska since 1982 and believed the discussion was long overdue. He applauded the committee for taking the issue on. He urged the committee to support the bill.

Representative Guttenberg spoke to the process of going through a school district budget. He asked if the delays, teacher pink slips, and other had a measurable cost to the school district.

Mr. Mayer answered that the district currently had two vacant positions in math and art. The lack of budgetary certainty was causing the district to delay filling the positions. Other districts throughout the state experienced the same problem. The issue was especially important in small districts because they may have access to a smaller pool of candidates. The issue was a continual concern throughout its budget drafting process.

[10:20:50 AM](#)

Co-Chair Foster CLOSED public testimony with intent to reopen it on Thursday afternoon.

HB 287 was HEARD and HELD in committee for further consideration.

[10:21:33 AM](#)

AT EASE

[10:25:29 AM](#)

RECONVENED

#hb213

HOUSE BILL NO. 213

"An Act relating to the investment, appropriation, and administration of the public school trust fund."

[10:25:37 AM](#)

Co-Chair Foster noted the committee had heard a brief introduction on the bill on January 25.

Co-Chair Seaton MOVED to ADOPT the proposed committee substitute for HB 213, Work Draft 30-LS0765\R (Glover, 1/26/18).

Co-Chair Foster OBJECTED for discussion. He asked the sponsor to address the changes in the work draft.

REPRESENTATIVE JUSTIN PARISH, SPONSOR, provided a brief introduction of the bill. The bill changed the way the state managed the Public School Trust Fund and would allow it to realize capital gains as income where appropriate, always preserving the principal of the fund and allowing for growth into the future. Moving to a more modern management system would mean continued growth in the fund, realize higher dividends, and a higher rate of earning. The CS had several changes - one practical and a couple of substantive changes. He deferred to his staff to address the details.

LISA WORL, STAFF, REPRESENTATIVE JUSTIN PARISH, addressed the summary of changes:

Page 2, line 10:

Delete "previous 10 fiscal years" and add "five fiscal years preceding he previous fiscal year."

Page 2, line 31:

Add "Section 6. This Act Takes effect immediately under AS 01.10.070(c).

Ms. Worl addressed the bill in its entirety by providing a sectional analysis:

Section 1 (page 1, line 4): Amends AS 37.14.110 (c) to state the commissioner of revenue shall determine the net income of the fund in accordance with accounting principles and that the principal shall be perpetually retained in the fund for investment purposes. The distinction between principal and

income and defining and maintaining the difference between the funds is deleted.

Section 2. (page 2, line 9): AS 37.14.160 adds section (5) to the duties to direct the commissioner to determine the average monthly balance for the public school trust fund based on the monthly average market value of the fund for the previous 10 fiscal years.

Ms. Worl elaborated that Section 2 added a lag-year with the word preceding. She continued to review the sectional analysis:

Section 3. (page 2, line 11 - 16): Adds new section, AS 37.14.165 relates to the use of the public trust fund allowing the legislature to appropriate 4.75 percent of the amount determined by the commissioner.

Section 4. (page 2, line 19 and line 23): AS 37.14.170 further defines investment of the trust fund management.

Section 5. (page 2, line 30): AS 37.14.140 is repealed. This section had stated that the net income of the fund could not be appropriated or expended. This section was repealed as it did not allow for fund to be managed with the POMV method.

Section 6. (page 2, line 31): Adds section 6 for Act to take effect immediately.

Ms. Worl communicated she was available for questions and listed others available in the room and online.

[10:31:01 AM](#)

Representative Guttenberg relayed that he had previously asked for the history of the fund. He requested to hear from the Legislative Finance Division (LFD).

ALEXEI PAINTER, ANALYST, LEGISLATIVE FINANCE DIVISION, asked if Representative Guttenberg would like information on the history of the fund.

Representative Guttenberg answered in the affirmative.

Mr. Painter obliged. He relayed that the fund had been established in 1913 as a land trust from a congressional grant to the territory of Alaska for public schools. In the 1970s the land trust had been converted into a cash trust, creating the fund as it is at present. At that point, all the public school trust lands were merged into general state lands. A cash trust had been created that was invested and 0.5 percent of royalties from minerals were to be deposited into the trust in an attempt to make the trust whole. Since then, the fund had initially been used for capital projects, but was now mainly used in the formula. Given investment strategies in the 1970s at the time the statute was written, there was deleted language in Section 1, such that the only spendable amount coming from the fund was dividends and other income. He stated that capital gains could not be spent.

Mr. Painter explained that dividends and capital gains (gains from selling stocks) went into the Permanent Fund Earnings Reserve Account (ERA). The Public School Trust Fund did not allow capital gains to be spent. As a result, less was spendable every year and the Department of Revenue (DOR) managed the fund in a way that perhaps did not maximize the total return of the fund since stocks tended to be where much of the value resided at present. Changing the management of the fund to a percent of market value (POMV) would likely increase the expected returns of the fund because the management could be shifted away from some of the dividend earning investments that may not be as strong. Additionally, the change would allow more to be spent every year because the state could not spend the dividends but could spend a more stable market value of the fund. He noted there were also several lawsuits.

[10:34:13 AM](#)

Representative Neuman referenced Mr. Painter's testimony that the fund had changed from a land trust to a cash fund. He asked about the process.

Mr. Painter answered that at the time in the 1970s the lands were managed as school trust lands and when the sales happened the revenue was spent by schools. At that point the new sales from land were deposited into a new fund. The land trust had been liquidated and the lands had been added to general state land. There was no distinction between school and other state lands, except for some post-1980

that were transferred. The royalty deposit was intended to take the place of trust lands that no longer belong to the trust. He explained it had been the subject of part of the Kasayulie law suit. At the time as part of the court's ruling (which had been preempted by a consent decree later on), the judge had determined that it was not possible to determine whether the trust had been made whole by putting the royalties instead of the lands unless the value of the lands was known. The value of the lands was not known - it was impractical to survey hundreds of thousands of acres in small parcels across the state. The trust would remain in perpetuity as long as the value of the lands was not known, but if the state could spend in a sustainable way on the correct things, it seemed to be fulfilling the trust's purpose. He remarked that the Department of Law (DOL) could provide further detail on the legal aspects.

Representative Neuman referenced the first paragraph in section changes that read: "language that was removed in a manner that preserves the distinction between principal and income and excludes capital gains." He believed it was a major change in the way management had been done. He requested to hear from DOL. He stated the change allowed the principal to be used for management purposes. He asked for more detail.

[10:37:02 AM](#)

Representative Parish deferred to DOL.

BRIAN BJORKQUIST, SENIOR ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW (via teleconference), responded there were several mischaracterizations of the Public School Trust, which he intended to clarify. He addressed Co-Chair Neuman's question about what happened with eliminating the capital gains in Section 1 of the bill. He explained that the section still had the DOR commissioner determine the net income and still preserved the principal of the fund, which was perpetually retained for investment purposes. The section changed that the capital gains or losses were retained as part of the principal of the fund - the capital gains would add to what could be spend or losses could detract from what could be spent.

Representative Neuman stated that the change would allow access to the principal for management of the fund. He reasoned if there was a downturn for several consecutive

years of -4.75, it could be taken out of the fund principal. He believed it went against the original intent of the language.

Mr. Bjorkquist disagreed. He explained that the bill specified that the principal of the fund shall be retained for investment purposes. The principal of the fund could not be spent for any purpose including administrative costs of the fund.

Representative Neuman suggested that the state would have to use part of the fund principal to fund the change in the bill if the fund had negative investment years. He questioned whether it was a change the legislature wanted to make.

[10:39:47 AM](#)

Representative Pruitt was trying to understand how the fund was currently managed and how the change would be made. He referenced a handout in members' packets provided by DOR dated January 23, 2018 (copy on file). The handout showed a table of projected payouts from FY 19 to FY 25. He looked at a column labeled "status quo" and observed that the amount in [FY 25] would be \$825 million. Alternatively, the 5-year endowment proposed in the CS, the fund amount would be \$776 million [in FY 25]. He noted there was a change of about \$10 million per year in the amount available for spending. He asked how the money was currently managed. He wanted to understand how DOR was currently limited in its ability to manage the fund and how the bill would allow the fund to make more money.

Representative Parish deferred to DOR.

MIKE BARNHILL, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, provided a background on the evolving law and theory on the management of trust funds and endowments. He believed it was fair to say that the approach to managing trust funds and endowments had changed substantially over the past 50 years. The state's statutes governing the Permanent Fund and the Public School Trust Fund reflected a theory and common law of managing trust funds that had been in place quite some time ago. Since that time numerous things had taken place. First, was the recognition that the overall objective of managing a trust fund or endowment was to preserve the inflation adjusted value of the fund

indefinitely. Previously, the idea had been to preserve the notional value of principal indefinitely. The approach had been modernized to make sure the principal adjusts with the value of inflation. Preserving the value of principal alone did not accomplish the objective.

Mr. Barnhill elaborated that over time the investment theory regarding investment of trusts and endowments had evolved from the notion that there should be relatively risk-free securities, meaning the investment portfolio would be heavily dominated with fixed income instruments, had given way to a more aggressively invested portfolio more weighted towards equities and growth in value. The idea of what could be appropriated or spent from a trust had evolved from the concept of income (cash in the case at hand) delivered through dividends from equity instruments and coupons from fixed income instruments, had given way to the idea of delivering some distribution percentage from the fund (in some cases 5 percent, or 4.75 percent in HB 213). The idea was to produce an inflation adjusted income stream for the trust's beneficiaries. Over time there was a stream of income that was relatively consistent and did not erode the inflation adjusted value of the trust.

Mr. Barnhill expounded that much of the conversation about the Permanent Fund had been focused on how to evolve the management and the law governing the fund to a more modern theory of endowments, which was equally applicable in the case of HB 213. The statute regarding the exclusion of capital gains in the public trust fund was also similar to the Permanent Fund context. In 1981 or 1982, instead of retaining net capital gains in the principal, the gains were allowed to flow to the income fund. At that time, the Permanent Fund had adopted inflation proofing. He spoke to Representative Neuman's point about eroding the inflation adjusted value of the trust. The way endowments avoid eroding the inflation adjusted value of the trusts was to set a distribution percentage in a way that ensured the payment to beneficiaries was sufficient without eroding the inflation adjusted value of the trust.

Mr. Barnhill addressed how the fund was managed currently. In general, the asset allocation was heavily weighted to fixed income compared to other trust funds administered by DOR (55 percent equity/45 percent fixed income). Over the past couple of years the allocation had been adjusted to add in a real estate investment trust (REIT). He explained

that a REIT is a cash generating instrument that looked like equities but delivered cash like fixed income. The department had also added in a bit of high yield. He detailed that if the bill passed, the department would shift the asset allocation to be more heavily equity weighted in order to generate a higher return profile over time. The numbers on the DOR table mentioned by Representative Pruitt reflected the idea that DOR would shift closer to a 70/30 asset allocation (70 percent equity/30 percent fixed income) with some adjustments to have continued exposure to REITs and high yield.

10:47:30 AM

Representative Pruitt spoke to the bill's intent to maintain the trust principal at an inflationary amount and to allow for the amount to be spent to also increase at the inflationary amount. The CS made a change from a 10-year POMV to a 5-year POMV. He asked Mr. Barnhill for his opinion on the change.

Mr. Barnhill answered that one of the challenges in the midterm investment environment (the next ten years) was the current long running bull market in equities. The department's advisors, Callan Associates, and many other advisors were concerned the market may be entering some period of correction. He noted it was not possible to know the timing - it could be any day or in three years. It seemed plausible that at some point over the next 10 years, the frothy returns the equity market had enjoyed over the past several years would come to an end at least temporarily. The department was being cautioned against being optimistic about continuing to see the double-digit equity return over the next 10 years.

Mr. Barnhill explained that the 10-year averaging made it easier for the department to hit the objective of preserving the inflation adjusted value of the trust over that period. The 5-year averaging made it more challenging if there was a period of market correction in the next 10 years. He added that Callan Associates and others present their capital market assumptions on a 10-year basis (they were more optimistic on a 30-year basis). While there was some pessimism over the next 10 years about whether they could hit their numbers with a 5-year averaging, over a longer period it should be doable assuming basic elements and performance of the equity markets persist over time.

Mr. Barnhill clarified that as drafted, the bill did not go all the way to the legal structure of what was considered to be the modern way to manage endowments and trusts. The reason was because it continued to preserve the distinction between principal and income. The objective of an endowment is to preserve the inflation adjusted value of the trust over time. The technical application of principal and income may not succeed in that objective, which was the reason laws had been updated to eliminate the distinction between principal and income so the manager understood it was not their job to preserve principal, but to preserve the inflation adjusted value of the trust. He cited a 2010 law passed by the legislature as an example. The law was called the Uniform Prudent Management of Institutional Funds Act under AS 13.65. He detailed it was a model law drafted by a professor with expertise in the legal rules governing the administration of endowments and trusts. He stated that AS 13.65 made the transition completely. He read from statute:

If a trust is created with the distinction of principal and income for purposes of this law, its interpreted to mean a trust fund of indefinite duration.

Mr. Barnhill explained that the distinction was eliminated in the modern law of trusts.

[10:52:20 AM](#)

Representative Pruitt stated asked where to put weight in terms of a long-term goal if the objective was to receive more money at present or preserve the value of the fund.

Mr. Barnhill answered that the policy embedded in laws like the Uniform Prudent Management of Institutional Funds Act was the concept of balancing the interests of beneficiaries today with the interest of beneficiaries in the future (preserving intergenerational equities). He explained that it preserved the inflation adjusted value of the trust while maximizing a stream of income to current beneficiaries. He explained that the numbers [on the DOR table] reflected the view that by investing more aggressively the fund would grow faster, the inflation adjusted value of the trust would be preserved, and the stream of revenue to beneficiaries would be maximized.

Vice-Chair Gara referenced the DOR handout. He observed that it did not look like an either/or scenario where either principal or rate of return were protected. He referred to the 10-year endowment model and noted the value of the fund went from \$697 million in FY 19 to \$808 million [in FY 25]. He asked if his understanding was accurate.

Mr. Barnhill answered in the affirmative.

Vice-Chair Gara stated that the other goal of the sponsor was to increase the amount of funding that went to public education. While the fund value increased, by FY 24 the annual payout under the 10-year endowment portion of the bill would mean \$31.5 million compared to the status quo payout of \$23.9 million per year. He asked for verification that it would mean approximately \$7.5 million per year in additional funds for education.

Mr. Barnhill answered in the affirmative.

Vice-Chair Gara stated that a \$100 increase in the Base Student Allocation (BSA) was about \$30 million and an extra \$7.5 million was an increase to the BSA of about \$25. He stated that in endowments if a certain amount was taken out annually, there may be some years where money had to be taken from the principal, but over the long-term the principal and payout grew. He asked why there would be a limitation that prevented dipping into the principal in a bad year.

[10:56:54 AM](#)

Mr. Barnhill referenced the table provided by DOR and replied that 10-year endowment was the department's way of reflecting the averaging or lookback. The bill had initially included a 10-year lookback, which had been changed to a 5-year lookback in the CS. He explained that the 3-year was the lookback for multiple trust funds administered by the department. Modern endowment theory did not ask whether the value of the principal was being invaded, but whether the inflation adjusted value of the trust was being preserved. He pointed to the 10-year endowment column with a starting balance of \$697 million. He spoke to the inflation adjusted value preserved indefinitely through time. He detailed that Callan Associates had a 10-year inflation projection of 2.25

percent, which had recently been increased to 2.26 percent. He explained that the 10-year endowment approach preserved the \$697 million on an inflation adjusted basis for the 5-year timeline and indefinitely.

Mr. Barnhill reported that it was plausible there would be a down market in the future. He noted there would be points in time when the inflation adjusted value was not preserved. The overall objective of endowment law was to preserve the inflation adjusted value indefinitely. He stated there were multiple ways to correct for a period of time where there was a drawdown or a correction in the markets and the inflation adjusted value of the trust decreases. Options included staying the course with the understanding that the market may come back, which it often did, or the distribution percentage could be adjusted temporarily from 4.75 percent downward for a couple of years to see if the inflation adjusted value corrected. It was not fatal. There were other ways of correcting for the issue. The fact there was a period where the current value was less than the inflation adjusted value. He explained the situation was not fatal.

[11:00:16 AM](#)

Vice-Chair Gara shared that he was in favor of the bill. He asked Mr. Barnhill to provide a written document specifying the impact of doing a traditional endowment model seeking long-term gains and where there was not significant concern over one or two years of a decline in principal.

Mr. Barnhill answered that if it was a legal question he preferred to defer to DOL. He stated if it was a trust question...

Vice-Chair Gara interjected that it was a trust administration question.

Mr. Barnhill responded the easiest thing was to refer members to AS 13.65, which set out the factors to consider in distributing from an endowment. The model statute said that evaluating the prudence of how the factors were evaluated and applied in a given year depended on what was known to the manager at the time.

Vice-Chair Gara asked whether it would cause DOR concern if he were to propose an amendment that removed the provision

specifying that the principal could never be dipped into, meaning the fund would just be run as an endowment.

Mr. Barnhill answered that the committee could delete Section 1, which would mean converting from a principal and income fund to an endowment fund, which he believed would be appropriate.

Representative Parish pointed to the language on page 2, lines 12 and 13: "Each year, the legislature may appropriate 4.75 percent..." He stated that if there were ever a concern that the growth of the fund was hindered, it would be the legislature's prerogative to allocate funds from other sources. Given the high rate of returns enabled by the legislation and the conservative 4.75 percent proposed POMV draw over a 5-year lookback, he did not anticipate any erosion of value except in exceptional market circumstances. He reiterated that in those circumstances the legislature had the option of drawing less.

[11:03:23 AM](#)

Representative Neuman stated he was having difficulty because land was a real property asset with a value that increased and decreased. He recalled losing money on a property in the 1980s because the value had gone down considerably. He had no idea when looking at the forecasts what the prior performance had been. He asked how the fund had performed in the past 10 years - he did not know how to make the comparison without the numbers. He wondered whether the change would put more money in the fund or not. He spoke to the value of the land and understood the concept of going to cash, but the committee had heard from LFD that the state did not know the value of the property when it had been changed from a land trust to a cash fund. He wondered if it could be a potential lawsuit. He asked how the funds currently went into the system. He questioned whether the funds came in as unrestricted general funds (UGF). He reasoned that it would be difficult to see what the funds were if they came in as UGF and were converted to designated general funds (DGF).

Representative Parish relayed that the Public School Trust Fund was a dedicated fund; it was a pre-statehood fund that was a federal program. He deferred to Mr. Painter to answer any concerns about the transition from a land trust to a

cash trust. He asked Mr. Barnhill to respond to the question about long-term earnings.

[11:06:13 AM](#)

Mr. Barnhill answered that as indicated by Mr. Painter, the fund had started out in 1913 as a land trust. In 1978 the land trust element was extinguished by the legislature and it was converted entirely to a cash asset portfolio. Currently there was no land in the trust fund - the fund was roughly allocated between 55 percent equity and 45 percent fixed income. The fund was also invested in REIT securities (which was not land) and high yield. He discussed unaudited returns as of December 31, 2017. The 1-year return was 13.79 percent, the 3-year return was 6.74 percent, the 5-year return was 7.36 percent, and the 10-year return was 6.23 percent. He offered to compare the returns to the Power Cost Equalization (PCE) Fund, which DOR administered more on an endowment approach. As of December 31, 2017, the 1-year PCE return was 16.02 percent, the 3-year return was 7.7 percent, the 5-year return was 10.3 percent, and the 10-year return was 7.04 percent. He offered to provide a copy to the Co-Chair Foster for distribution.

Representative Neuman requested the past performance in writing. He remarked on the difference between investing the \$1 billion PCE Fund compared to the \$22 million Public School Trust Fund.

Mr. Barnhill clarified that the Public School Trust Fund was a \$670 million fund. He recognized the fund was smaller than the PCE Fund, but not that much smaller.

[11:08:46 AM](#)

Mr. Painter responded to Representative Neuman's question about how funding appeared in the budget. He explained that the 0.5 percent of royalties dedicated to the fund were appropriated but did not appear in the budget just as the royalties going to the Permanent Fund did not show up. The spending from the fund as a dedicated fund showed up as "other," which would not change in the bill. Both the Mount Edgecumbe and K-12 formula components showed up as other funds. There was no UGF because of the pre-statehood dedication.

Co-Chair Neuman asked if the [indecipherable] used UGF of DGF.

Mr. Painter answered "other."

Co-Chair Seaton referenced Mr. Barnhill's testimony that the 10-year endowment model preserved the inflation adjusted value over a 10-year period. He asked if the 5-year lookback that was used by the Permanent Fund also preserve the inflation adjusted value over the same amount of time.

Mr. Barnhill answered that for the 10-year lookback the inflation adjusted value at current Callan Associates capital market assumptions was preserved for all periods of time. For the 5-year approach and 10-year window using current Callan capital market assumptions, the inflation adjusted value of the trust fund narrowly missed. Inflation adjusted value was restored in Callan's 30-year projection for capital markets was closer to 8 percent as opposed to 6.5 percent. The pessimism embedded into Callan's 10-year projections created the issue for the 5-year approach. He added that the issue was also true for the 3-year approach.

[11:11:19 AM](#)

Representative Guttenberg considered the interest earned in a year over the payout plus inflation proofing. He noted that Mr. Barnhill had discussed that in some of the years it was considerably higher. He asked if the interest that went back into the fund was considered principal.

Mr. Barnhill replied there were two paradigms he was trying to distinguish. He referred to the principal income paradigm as the legacy paradigm. In the Permanent Fund context there was familiarity and comfort with the concept of inflation proofing because the legislature had decided to explicitly inflation proof through an appropriation back from the ERA to principal. In the Public School Trust Fund the legacy approach did not do that explicitly because the statutory definition of principal included capital gains. He speculated that the drafters of the approach believed the retention of capital gains was some form of inflation proofing. In other words, in the legacy approach for the Public School Trust Fund, there was not any explicit inflation proofing because capital gains and principal were retained, which was different than the Permanent Fund.

Mr. Barnhill addressed the modern paradigm the bill tried to move towards and explained that the inflation adjustment was implied through the distribution percentage of 4.75 percent. The notion was to balance the payouts in a way that preserved the inflation adjusted value of the trust over periods of time.

Representative Guttenberg asked what Callan Associates and two of their competitors would recommend on the 5-year or 10-year endowment concepts.

Mr. Barnhill did not want to put words in Callan's mouth. He speculated that Callan would observe that that the principal and income structure to trust funds was long outdated and the majority (if not all) endowment funds operate on an endowment methodology or POMV approach. He referenced the 10-year, 5-year, and 3-year lookback periods and ventured that Callan would observe that with their current capital market assumptions for the next 10 years that the 10-year averaging approach worked, and the 5-year approach narrowly missed, but over longer periods of time would restore inflation adjusted value and the same was true for the 3-year approach.

Representative Guttenberg surmised that Callan would say it was up to the client.

[11:15:07 AM](#)

Co-Chair Foster WITHDREW his OBJECTION to the adoption of the work draft.

Representative Neuman asked why the approach had been changed from 10 to 5 years.

Representative Parish answered that he had originally proposed the 10-year lookback. On advice by Mr. Painter he had included a lag-year to provide greater predictability to know what level of funding was coming. He recognized going to a 5-year lookback was a more aggressive option, but it was familiar to the bulk of the Alaskan population through the Permanent Fund program and it was more in line with what the other body [Senate] may be supportive of. He stated that for the past 20 years the Public School Trust Fund had tripled in nominal value. He believed it was fantastic and that robust growth in the state's funds was

valuable; however, he thought that it fundamentally departed from the purpose of a trust, which was to preserve the inflation adjusted value, while maximizing dividends to beneficiaries. He believed either the 5-year or the 10-year lookback achieved the objective. There was a strong argument to be made that the 5-year lookback did a superior job, if at the expense of limiting the rate that inflation adjusted value was beat.

[11:18:00 AM](#)

Representative Neuman requested to see the numbers behind the reasoning the change had been made to 5 years. He mentioned perhaps a 7-year or 8-year approach should be considered. He noted there was a reason the sponsor had changed to the 5-year approach and he assumed it was because the numbers looked better.

Representative Parish was sensitive to the concern, which was the reason he had originally proposed a 10-year lookback. He would provide the requested information in writing.

Co-Chair Foster wanted to make sure there was time for public testimony. He noted that no one was signed up online.

Vice-Chair Gara referenced discussion about going back to the Callan model with POMV and no ban on going into the principal in one year or another. He asked if it would mean deleting Section 1 of the bill.

Mr. Barnhill replied that if the legislature wanted to convert the trust from a principal and income fund to a modern endowment fund, it would mean deleting Section 1 of the bill.

Vice-Chair Gara requested the information asked for by Representative Neuman. He was interested in the numbers for a 7-year and 8-year approach.

Representative Parish replied that he would provide the information.

[11:20:21 AM](#)

Representative Pruitt remarked that the CS also made the changes effective immediately. He asked if it would enable DOR to shift the asset allocation immediately.

Mr. Barnhill believed the intention was two-fold. First, DOR would shift the asset allocation as soon as prudently possible from a 55 percent [equities]/45 percent [fixed income] to a 70 percent [equities]/30 percent [fixed income] allocation. There could be difficulties in making the shift immediately depending on the market conditions; the shift should not be done at the wrong time. He believed the other intention was to appropriate for purposes of FY 19 pursuant to the distribution percentage as opposed to the current method.

Representative Parish added that the primary objective was realizing a high rate of return from its assets. The state's asset managers had communicated that higher returns could be achieved on the \$670 million fund if they were provided more management discretion. He believed it was better done sooner rather than later. The difference in earnings would be in the thousands of dollars per day if the market behaved as was expected. The difference between an immediate effective date versus 90 days after passage would be measured in the hundreds of thousands of dollars, which he believed merited consideration by the legislature. He thanked the committee.

[11:22:53 AM](#)

Co-Chair Foster WITHDREW his OBJECTION to the adoption of the work draft.

There being NO further OBJECTION, Work Draft 30-LS0765\R (Glover, 1/26/18) was ADOPTED.

Co-Chair Foster OPENED and CLOSED public testimony. He relayed that amendments were due on Friday.

HB 213 was HEARD and HELD in committee for further consideration.

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

ADJOURNMENT

11:24:55 AM

The meeting was adjourned at 11:24 a.m.