

**ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE**

April 10, 2018

3:20 p.m.

MEMBERS PRESENT

Representative Jonathan Kreiss-Tomkins, Chair
Representative Gabrielle LeDoux, Vice Chair
Representative Adam Wool
Representative Chris Birch
Representative DeLena Johnson
Representative Gary Knopp

MEMBERS ABSENT

Representative Chris Tuck
Representative Andy Josephson (alternate)
Representative Chuck Kopp (alternate)

COMMITTEE CALENDAR

HOUSE JOINT RESOLUTION NO. 41

Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund, establishing the earnings reserve account, and relating to appropriations from the Alaska permanent fund.

- HEARD & HELD

HOUSE BILL NO. 409

"An Act relating to identification cards; relating to vehicle registration fee rates; relating to changes of address; relating to driver's license fees; and relating to financial responsibility for motor vehicles."

- HEARD & HELD

SENATE BILL NO. 204

"An Act relating to special registration plates for vehicles owned by veterans with disabilities."

- HEARD & HELD

HOUSE JOINT RESOLUTION NO. 30

Urging the United States Congress to reaffirm the commitment of the United States to promote the safety, health, and well-being

of refugees and displaced persons; urging the United States government to uphold its international leadership role in responding to displacement crises with humanitarian assistance and to work with the international community and the United Nations High Commissioner for Refugees to find solutions to conflicts and protect refugees; and urging the President of the United States to continue to mitigate the burden placed on frontline refugee host countries.

- HEARD & HELD

CS FOR SENATE BILL NO. 196 (FIN) (EFD FLD)
"An Act relating to an appropriation limit; and relating to the budget responsibilities of the governor."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HJR 41

SHORT TITLE: CONST AM: PERMANENT FUND; POMV; EARNINGS
SPONSOR(s): STATE AFFAIRS

| | | |
|----------|-----|---------------------------------|
| 04/06/18 | (H) | READ THE FIRST TIME - REFERRALS |
| 04/06/18 | (H) | STA, JUD, FIN |
| 04/10/18 | (H) | STA AT 3:15 PM GRUENBERG 120 |

BILL: HB 409

SHORT TITLE: DMV ID CARDS & REGISTRATION FEES
SPONSOR(s): STATE AFFAIRS

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|----------|-----|---------------------------------|
| 04/05/18 | (H) | READ THE FIRST TIME - REFERRALS |
| 04/05/18 | (H) | STA, FIN |
| 04/10/18 | (H) | STA AT 3:15 PM GRUENBERG 120 |

BILL: SB 204

SHORT TITLE: DISABLED VET PLATES: CHIROPRACTORS CERTIFY
SPONSOR(s): EGAN

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|----------|-----|-----------------------------------|
| 02/19/18 | (S) | READ THE FIRST TIME - REFERRALS |
| 02/19/18 | (S) | STA |
| 02/27/18 | (S) | STA AT 3:30 PM BUTROVICH 205 |
| 02/27/18 | (S) | Moved SB 204 Out of Committee |
| 02/27/18 | (S) | MINUTE (STA) |
| 02/28/18 | (S) | STA RPT 4DP 1NR |
| 02/28/18 | (S) | DP: MEYER, GIESSEL, COGHILL, EGAN |

02/28/18 (S) NR: WILSON
 03/07/18 (S) TRANSMITTED TO (H)
 03/07/18 (S) VERSION: SB 204
 03/09/18 (H) READ THE FIRST TIME - REFERRALS
 03/09/18 (H) STA
 04/10/18 (H) STA AT 3:15 PM GRUENBERG 120

BILL: HJR 30

SHORT TITLE: URGE U.S. SUPPORT OF REFUGEES

SPONSOR(s): JOSEPHSON

01/24/18 (H) READ THE FIRST TIME - REFERRALS
 01/24/18 (H) CRA, STA
 02/13/18 (H) CRA AT 8:00 AM BARNES 124
 02/13/18 (H) Heard & Held
 02/13/18 (H) MINUTE(CRA)
 02/22/18 (H) CRA AT 8:00 AM BARNES 124
 02/22/18 (H) Moved HJR 30 Out of Committee
 02/22/18 (H) MINUTE(CRA)
 02/27/18 (H) CRA AT 8:00 AM BARNES 124
 02/27/18 (H) Adopted Fiscal Note
 02/28/18 (H) CRA RPT 3DP 1DNP 2NR
 02/28/18 (H) DP: KREISS-TOMKINS, DRUMMOND, PARISH
 02/28/18 (H) DNP: TALERICO
 02/28/18 (H) NR: LINCOLN, SADDLER
 04/10/18 (H) STA AT 3:15 PM GRUENBERG 120

BILL: SB 196

SHORT TITLE: APPROPRIATION LIMIT; BUDGET RESERVE FUND

SPONSOR(s): FINANCE

02/19/18 (S) READ THE FIRST TIME - REFERRALS
 02/19/18 (S) FIN
 02/28/18 (S) STA REFERRAL ADDED BEFORE FIN
 03/06/18 (S) STA AT 3:30 PM BUTROVICH 205
 03/06/18 (S) Moved SB 196 Out of Committee
 03/06/18 (S) MINUTE(STA)
 03/07/18 (S) STA RPT 3DP 1DNP 1NR
 03/07/18 (S) DP: MEYER, GIESSEL, WILSON
 03/07/18 (S) DNP: EGAN
 03/07/18 (S) NR: COGHILL
 03/15/18 (S) FIN AT 9:00 AM SENATE FINANCE 532
 03/15/18 (S) Heard & Held
 03/15/18 (S) MINUTE(FIN)
 03/16/18 (S) FIN RPT CS 6DP NEW TITLE
 03/16/18 (S) DP: HOFFMAN, MACKINNON, BISHOP, VON
 IMHOF, STEVENS, MICCICHE

03/16/18 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/16/18 (S) Moved CSSB 196(FIN) Out of Committee
03/16/18 (S) MINUTE(FIN)
03/23/18 (S) UPHOLD RULING OF THE CHAIR Y13 N5 E1 A1
03/23/18 (S) UPHOLD RULING OF THE CHAIR Y11 N7 E1 A1
03/23/18 (S) UPHOLD RULING OF THE CHAIR Y11 N7 E1 A1
03/23/18 (S) UPHOLD RULING OF THE CHAIR Y11 N7 E1 A1
03/23/18 (S) ENGROSSED
03/28/18 (S) TRANSMITTED TO (H)
03/28/18 (S) VERSION: CSSB 196(FIN) (EFD FLD)
03/29/18 (H) READ THE FIRST TIME - REFERRALS
03/29/18 (H) STA, FIN
04/10/18 (H) STA AT 3:15 PM GRUENBERG 120

WITNESS REGISTER

REID MAGDANZ, Staff

Representative Jonathan Kreiss-Tomkins
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: During the hearing of HJR 41, co-presented the legislation and answered questions.

ROBERT ERVINE, Staff

Representative Jennifer Johnston
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: During the hearing of HJR 41, co-presented the legislation and answered questions.

ANGELA RODELL, Chief Executive Officer
Alaska Permanent Fund Corporation (APFC)
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: During the hearing of HJR 41, answered questions.

CATHY SCHLINGHEYDE, Staff

Representative Jonathan Kreiss-Tomkins
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: During the hearing of HB 409, presented the legislation and answered questions.

MARLA THOMPSON, Director

Division of Motor Vehicles
Department of Administration (DOA)

Anchorage, Alaska

POSITION STATEMENT: During the hearing of HB 409, answered a question.

MICHAEL STANKER, Assistant Attorney General

Civil Division

Labor & State Affairs Section

Department of Law (DOL)

Anchorage, Alaska

POSITION STATEMENT: During the hearing of HB 409, answered a question.

PETER NAOROZ, Staff

Senator Dennis Egan

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: During the hearing of SB 204, presented the legislation.

REPRESENTATIVE ANDY JOSEPHSON

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: During the hearing of HJR 30, presented the legislation.

SENATOR PETER MICCICHE

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: During the hearing of SB 196, co-presented the legislation and answered questions.

SENATOR NATASHA VON IMHOF

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: During the hearing of SB 196 co-presented the legislation and answered questions.

ACTION NARRATIVE

[3:20:52 PM](#)

CHAIR JONATHAN KREISS-TOMKINS called the House State Affairs Standing Committee meeting to order at 3:20 p.m. Representatives Kreiss-Tomkins, LeDoux, Birch, Johnson, Knopp, and Wool were present at the call to order.

HJR 41-CONST AM: PERMANENT FUND; POMV; EARNINGS

[3:22:23 PM](#)

CHAIR KREISS-TOMKINS announced that the first order of business would be HOUSE JOINT RESOLUTION NO. 41, Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund, establishing the earnings reserve account, and relating to appropriations from the Alaska permanent fund.

[3:23:03 PM](#)

REID MAGDANZ, Staff, Representative Jonathan Kreiss-Tomkins, Alaska State Legislature, advised that this amendment for the Constitution of the State of Alaska caps the draws on the Permanent Fund (PF) to a sustainable 4.75 percent of market value and it prevents ad hoc draws on the earnings reserve account (ERA), thereby, preventing any draws above that 4.75 percent threshold. The amendment maintains the principal and the ERA as separate accounts and prevents any spending from the principal account.

[3:23:50 PM](#)

ROBERT ERVINE, Staff, Representative Jennifer Johnston, Alaska State Legislature, added that HJR 41 represents the consensus point discussed around the legislature as a whole, and it is the beginning of a conversation. It appears, he offered, that many legislators believe ad hoc draws are a bad idea because it changes the way in which the fund is managed, and the state needs some type of sustainable draw.

REPRESENTATIVE BIRCH asked whether there is a reason this resolution cannot take place in statute, noting the hurdle it is to get anything through the whole constitutional amendment process. Basically, he said, at this point the \$40 billion in the fund is fully fenced off and is constitutionally protected via the 1976 public vote for the PF. He further asked whether there is any reason the legislature could not set up something similar if it had the same net result, and then work to put it into statute.

[3:25:30 PM](#)

REPRESENTATIVE WOOL referred to Mr. Ervine's statement regarding a consensus amongst the legislators and asked whether those were anecdotal water cooler discussions and whether that was "just your vibe."

MR. ERVINE answered that Representative Wool was correct.

CHAIR KREISS-TOMKINS added that another iteration of this idea is where a percent goes to the dividends and a percent is available for appropriation for public services. He noted that it could be 50/50, or 25/75, or many different versions, "and just not even going there and just starting with the most basic notion, which is, "What is a sustainable draw of the PF?"

[3:26:16 PM](#)

REPRESENTATIVE WOOL referred to the statement that this legislation would prevent ad hoc draws out of the ERA constitutionally, but yet there would still be an ERA and a PF corpus. He asked the reason for not merging it all into one if there are no ad hoc draws out of the ERA.

MR. MAGDANZ responded that the main effect for not merging the accounts is that under this amendment, the \$40 billion in the principal that Representative Birch mentioned would remain untouchable and un-spendable. For example, he said, if the market suffered a significant downturn immediately after passing this amendment, that \$40 billion would remain protected and would still be unavailable for spending under any scenario.

[3:27:15 PM](#)

REPRESENTATIVE WOOL pointed to the statement that this legislation would prevent ad hoc draws out of the ERA, and therefore the ERA would simply be the entity from which the 4.75 percent is drawn. He surmised that one is a checking account and the other is a savings account, but if there are no draws from it, it could ostensibly be looked at the same. He then clarified that when he said, "no draws," he meant other than the 4.75 percent.

MR. MAGDANZ offered a hypothetical wherein for the next eight years the PF earned zero returns, and if 5 percent a year was being drawn, the ERA could potentially be drawn down to zero by maintaining a separate principal and no money would be available to draw. Whereas, if the 2 funds were combined, it would be possible to draw 5 percent forever, he offered.

[3:28:25 PM](#)

REPRESENTATIVE WOOL said that under that scenario, if the corpus was separate from the principal and the ERA was used up for "your draw of 4.75 percent" and the earnings was zero for 8 years, the ERA would go to zero and "we couldn't tap into the principal. Then you'd be the dilemma of, what do we do now?"

MR. MAGDANZ replied that Representative Wool was correct, the state would have to find the money to fund its budget from the different sources.

[3:29:10 PM](#)

REPRESENTATIVE KNOPP asked whether that is similar to what the state has today wherein the ERA is separate from the principal amount, and the corpus is already protected under the Alaska State Constitution. Other than the structured draw at 4.75 percent, he said that he does not see a whole lot of difference in what is being proposed here, other than to protect it under the Alaska State Constitution. He asked whether he was on track with his statement.

MR. ERVINE answered that Representative Knopp's statement was correct.

[3:29:56 PM](#)

REPRESENTATIVE KNOPP noted that it had been stated that the ERA is subject to appropriation, yet Title 34 lays out the structured draw and inflation-proofing. He remarked that members of the public have argued that the legislature is breaking its own laws by not following its laws and he somewhat agrees in that sense. Mr. Magdanz said that everything in the ERA is subject to appropriation, and he asked whether that statement evolved from a legal opinion or authority.

MR. MAGDANZ responded that that statement means, for instance, this year the legislature could, with 21 votes, choose to take all of the \$16 billion in the ERA, put it in the constitutional budget reserve (CBR), and choose to spend it all in a single year. This constitutional amendment would prevent that scenario from taking place, and "it would say, really, truly, the legislature can only spend 4.75 percent of market value."

REPRESENTATIVE KNOPP asked that if the legislature was following its own statutes right now, it wouldn't have that option. He asked where it read that it is all subject to appropriation

because the legislature does not appear to be following the laws it created a few years ago.

MR. MAGDANZ responded that the problem is that the legislature does not have to follow its statutes when it comes to the budget process.

[3:32:41 PM](#)

REPRESENTATIVE BIRCH noted that a couple of different terms have been used for the PF, and the sponsor statement indicates that the goal is to prevent un-sustainable spending that threatens the future value of the fund. He opined that the \$40 billion in the corpus is pretty well fenced off without some sort of constitutional question for the voters. He said he does understand the earnings for the 1976 amendment that basically moved those dollars into the general fund (GF) and asked whether the corpus is threatened in any manner.

MR. MAGDANZ answered that Representative Birch is correct that the \$40 billion attributed to the principal is currently untouchable. The question to be had with this amendment is that the total fund value, including the ERA, is roughly \$66 billion. The difference between those 2 numbers, \$26 billion, is not currently constitutionally protected. This amendment would protect all \$66 billion currently in the PF, he explained.

[3:34:23 PM](#)

REPRESENTATIVE WOOL remarked that he has been hearing that the legislature has not been following the statute, breaking the law with zero repercussions, and that within the last two years the statutory formula for the PFD has not been followed. He noted that the governor vetoed it a few years ago, then the legislature passed a less than statutory formula, and this year it appears the legislature is on track to do it again. He asked whether this is a common occurrence.

MR. ERVINE offered the current pertinent example of the "90-day limit" wherein the voters of 2006 passed an initiative limiting the legislature to a 90-day session, and the legislature has "blown by it 8 of the last 10 years," he opined.

[3:35:44 PM](#)

ANGELA RODELL, Chief Executive Officer, Alaska Permanent Fund Corporation (APFC), Department of Revenue (DOR), responded to

Representative Knopp's question, and advised that the Alaska State Constitution creating the PF is "very clear" that the amounts on deposit in the fund will be used for income-producing investments only, the income of which shall go to the GF, and the legislature has been given the power of appropriation over the GF. That, she explained, is the mechanism by which the legislature has the ability to fully appropriate the ERA because the ERA became the repository rather than going directly to the GF. The legislature, through statute, created a sub-fund of the GF that is the ERA, she further explained.

[3:36:48 PM](#)

REPRESENTATIVE KNOPP commented that there is also "another sub-account of that, we required to put in 50 percent of the projected dividend payments out of the ERA." In the event that is the case, he asked why the legislature put that formula in statute, whether it was "almost recommended language" but not mandatory as far as the formula for the PFD payouts.

MS. RODELL noted that she was not here at the time of the debate as to how the PF would be used or how that income would be used. She offered that it is her understanding, through the materials she has read, that part of it was to "bifurcate that debate and leave that debate for days like today, which is why the constitutional language for the PF is actually very clean and very simple." This, she explained, was the compromise achieved through statute and was in place up until 2016. Interestingly, one of the historical observations she said that she would make is that the statutory language reads that, "50 percent of the income available for distribution shall be transferred for the PFD fund program." Except, she pointed out, there was no discussion regarding what was to be done with the other 50 percent of the amount available for distribution was to be used for, and at times that was used for inflation-proofing. Inflation-proofing is another example of a statute that has not been fulfilled since 2016, and/or it was appropriated back into the principal of the fund. There is almost \$7 billion of additional appropriations outside of inflation-proofing and royalty deposits that comprise the \$40 billion of the corpus of the fund. Therefore, she noted, one might argue that 50 percent is the amount that was available for state services that previous legislatures chose not to appropriate, but rather leave behind the buildup of the balance in the ERA.

[3:39:10 PM](#)

REPRESENTATIVE KNOPP opined that he had read a legal memorandum in the past which discussed the powers of appropriation and that is how "we got around that." He said that he was pretty sure he did not support this, but he would support the inflation-proofing in the Alaska State Constitution. He noted that when he asked why the legislature was not inflation-proofing this year, he was advised that the fund made 12 percent, "we think that's more than enough to offset inflation-proofing." He asked Ms. Rodell's opinion on that advice.

MS. RODELL answered that she strongly disagrees with that advice. The principal of the account only gets what the legislature chooses to appropriate back in, outside of the mandatory 25 percent. Therefore, she explained, all of those earnings are available for appropriation, and none of it - "not one penny of it" - is available to the principal of the account. In response to Representative Kopp's earlier comment, under Wielechowski v. State of Alaska, [403 P.3d 1141 (Alaska 2017)], there was a great deal of discussion as to the powers of appropriation on the ERA and the requirement of an appropriation for both a dividend and inflation-proofing, she offered. She said the decision had been made in 2017 by the Alaska Supreme Court.

[3:40:48 PM](#)

CHAIR KREISS-TOMKINS asked whether in the House of Representative and Senate's operating budgets, either body is inflation-proofing this year.

MS. RODELL responded that the budget passed by the House of Representatives and sent to the Senate includes inflation-proofing of \$942 million for fiscal year (FY)19, it does not include restoring the inflation proofing amounts totaling \$1.4 billion from FY16 through FY18. The Senate Finance Committee is discussing the current committee substitute (CS) in which inflation-proofing is not addressed, she said.

CHAIR KREISS-TOMKINS noted that within three of the last four years, the legislature has not inflation-proofed but this year there is inflation-proofing within the operating budget that passed the House of Representatives.

[3:41:54 PM](#)

REPRESENTATIVE KNOPP offered that the Senate Finance Committee moved the budget out of committee today without inflation-proofing, and that was his concern.

CHAIR KREISS-TOMKINS commented, "Mine as well."

[3:42:07 PM](#)

REPRESENTATIVE BIRCH commented, "Mine as well." He noted that the PF board has long suggested that a percentage of market value (POMV) might be a reasonable approach to provide a predictable and sustainable level of revenue to the state for whatever purpose. There had been some discussion around how to structure a POMV draw on a reliable basis, on an annual basis, and asked whether Ms. Rodell had experience in other large funds. He said he supports the idea of a POMV but worries about the entanglement of trying to get a constitutional amendment [passed], and how to get there without going through this exercise.

MS. RODELL opined that it absolutely can be accomplished through statute. A number of statutes have been proposed since 2015, and HB 26 progressed the farthest in the legislative process. The challenge legislators face on the statutory front is that statutes were followed completely for 35 years and were not open for debate. Even though, she offered, legislators had been told that "this money" was available for appropriation, they could cut the dividend, they could cut inflation-proofing, that "this is your power under the constitution," it was done as a matter of course and there was no questioning about that, she said. She opined that the concerns being heard about a statutory solution versus a constitutional solution, is the recognition of the legislature's power of appropriation and what that means. It means, she explained, not appropriating for anything that is subject to appropriation and instituting that sort of political dynamic into those things that, which in the past were not viewed as political. From the standpoint of the APFC, it would appreciate a solution of any kind at this point because this "sort of ongoing year after year, not knowing, is very troubling." In the event there was consensus around a statute, she said that she personally believes legislators would follow the newly created statute. Having said that, she offered, a constitutional amendment provides a level of comfort that a statute "just can't get us there."

[3:45:35 PM](#)

REPRESENTATIVE KNOPP reiterated that he believes putting the PFD or the ERA in the Alaska State Constitution is poor public policy. He described the Alaska State Constitution as a framework of guiding principle, not to enshrine everything "that you think needs to be in there." Although, he said, he does support a constitutional amendment with regard to inflation proofing. He noted that SB 26 does provide a structured draw, he likes that it has a three-year component, and since the future is unknown, he would like Ms. Rodell's opinion.

MS. RODELL responded that she found HJR 41 interesting because it is very simple, it is a draw, and how the legislature spends that draw is entirely still open for debate. The amount being drawn out of what the state has historically referred to as the PF, is set at 4.5 percent. The three-year lookback is key to SB 26 being successful because it will provide the necessary information as to whether it is being overdrawn and if it needs to be reset, she advised. She acknowledged that the committee is not speaking to SB 26, but it has a mechanism for inflation-proofing with a recognition of the need for some inflation-proofing on the principle of the fund. She referred to the hypothetical offered by Mr. Magdanz regarding eight years of zero percent and spent down the ERA, "you still wouldn't touch the \$40 billion." Ms. Rodell argued that that is possibly why there is a need to have a mechanism to move some of the ERA periodically over into the principal, some of those earnings to boost that up. She explained if the goal is to truly try to keep that limiter in there, then that is how to continue maintaining its purchasing power. In any event, she explained, this constitutional amendment makes a simple straight-forward 4.75 percent draw, and it limits it to the amounts in the ERA. The APFC can support this type of constitutional amendment, she said.

[3:49:05 PM](#)

REPRESENTATIVE WOOL reminded the committee that it recently saw a version of this bill that had a 5 percent draw and now it is at 4.75 percent, he asked whether something had taken place within the last 10 days and what will happen in the next 10 days.

CHAIR KREISS-TOMKINS explained that the version was a work draft and was not put on the record because there are different schools of thought as to what constitutes a sustainable draw.

MS. RODELL replied that the board has had a long-standing resolution in place supporting 5 percent. Obviously, 4.75 percent is more sustainable than 5 percent because less is being removed, but that percentage amount is a call for the policy makers, she said.

CHAIR KREISS-TOMKINS added a comment to the question of sustainability and advised that he and his staff recently spoke with Greg Erickson, former publisher of the Budget Report, who is a staunch advocate of a 4 percent draw.

[3:50:28 PM](#)

REPRESENTATIVE WOOL noted that the presenters initially said this was a 4.75 percent sustainable draw. However, he pointed out, when presented with the hypothetical of 8 years with zero returns, suddenly the 4.75 percent may not be sustainable so possibly it should not be placed in the Alaska State Constitution. He offered that no one expects zero returns for eight years, yet that is why there is a barrier between the ERA and the principal.

MS. RODELL answered that it is important to talk about doomsday scenarios in order to create an awareness that the future is unknown in terms of investing and markets. In terms of the stress analyses that APFC ran, it believes that 4.75 percent and 5 percent are reasonably sustainable numbers for draws. She opined that the three year look back becomes an interesting question and she suspects that if this happened, there will come a time when she is sitting in front of the committee discussing the balance in the ERA, the performance of the investments, and whether overdrafts will potentially occur at some point. Therefore, she advised, part of what is helpful in this constitutional amendment is smoothing it out, "out of 5 of the last 6, so you're really creating a long time period, and the effective draws then end up being significantly less than the nominal draw of 4.75 percent or 5 percent."

[3:53:16 PM](#)

REPRESENTATIVE WOOL noted that Ms. Rodell commented that the APFC would like to see some type of structure "like this," thereby removing the uncertainty that APFC has faced during the last few years. He asked whether it is simply the anticipation of a draw that puts the corporation on edge.

MS. RODELL referred to her testimony a few weeks prior when she discussed what it means to be prudent investors and advised that it means following a formal portfolio theory that takes into account distributions. When the board assembles its asset allocation and determines how to invest the fund, it should also take into account the distribution requirement except, currently, it does not have a distribution requirement, so it is anything between zero and 100 percent. Therefore, she pointed out, the board tries to successfully manage through that in order to deliver maximum returns to the state while also recognizing that the principal must be protected and "not go all in on black, as they say." She explained that having this structure in place will provide the sideboards through which the board can then make very real determinations as to how much can be put into illiquid investments like real estate, like private equity that generates the big returns.

[3:55:18 PM](#)

REPRESENTATIVE WOOL noted that Ms. Rodell stated that she preferred a constitutional formula like this, as opposed to statutory because statutes can be ignored to some extent. As far as the structure of the fund itself, (audio difficulties) constitutional draw of up to 4.75 percent, and he would like to see "it just one super fund," a true endowment.

CHAIR KREISS-TOMKINS commented that "super funds" are something else.

REPRESENTATIVE WOOL (audio difficulties) consistent draw of 4.75 percent, what remains in the fund essentially counts as inflation-proofing. He continued, "And, if you took too much, then it wasn't inflation-proofing, well then you've taken too much. And so, you have a set fund with a set draw and that's it. And, I know the answer but I'm going to ask anyway, would that be your preference in the hierarchy of options here?"

MS. RODELL answered that that would absolutely be "our preference."

[HJR 41 was held over.]

HB 409-DMV ID CARDS & REGISTRATION FEES

[3:57:24 PM](#)

CHAIR KREISS-TOMKINS announced that the next order of business would be HOUSE BILL NO. 409, "An Act relating to identification

cards; relating to vehicle registration fee rates; relating to changes of address; relating to driver's license fees; and relating to financial responsibility for motor vehicles."

3:58:00 PM

CATHY SCHLINGHEYDE, Staff, Representative Jonathan Kreiss-Tomkins, Alaska State Legislature, advised that HB 409 was drafted at the request of the Department of Administration, Legislative Finance Sub-committee. The legislation updates and streamlines the statutes for greater efficiency at the Division of Motor Vehicles (DMV) and addresses some of the identified indirect expenditures in the division. He referred to the fiscal note [disbursed to the members at the beginning of this hearing] which estimates that the legislation would generate revenue of approximately \$815,000 per year.

3:58:30 PM

MS. SCHLINGHEYDE presented the sectional analysis and advised that Section 1 was specifically recommended by the Department of Administration, Legislative Finance Sub-committee. Section 1 standardizes the age for senior citizen fee waivers by changing the age for a senior citizen identification card from 60 to 65.

MS. SCHLINGHEYDE advised that Section 2 allows a person to authorize the Division of Motor Vehicles (DMV) to update their address based on the United States Postal Service (USPS) database. Currently, even when the DMV realizes that an address was set up and updated at the post office, it must mail to what it knows is the wrong address, the mail then bounces back, and the DMV then reaches out to the person. This section allows the DMV to mail to the correct current address.

MS. SCHLINGHEYDE advised that Section 3 removes the vehicle registration fee exemption for amateur radio operators, which is approximately 44 beneficiaries per year.

MS. SCHLINGHEYDE advised that Section 4 is a statutory recommendation, it is an indirect expenditure of approximately \$498,000 per year. Section 4 eliminates the exemption for municipalities and gives partial exemption to charitable organizations. Therefore, she explained, it would be a partial recovery of the indirect costs.

MS. SCHLINGHEYDE advised that Section 5 sets the fee for DMV Knowledge Tests at \$5 and raises the fee for DMV Road Tests from

\$15 to \$25. She explained that this would both raise revenue for the state and increase efficiency at DMV by hopefully reducing the "no share rates," which is approximately 20 percent for the driving test. The current fail rate for the Knowledge Test, which has unlimited free attempts, is approximately 60 percent.

[4:00:03 PM](#)

MS. SCHLINGHEYDE advised that Section 6 is statutory cleanup, it is various (indisc.) and accident reporting thresholds. The thresholds were originally set the same for DMV and the Department of Transportation & Public Facilities (DOTPF), that the report must be set when it is \$501. The DOTPF has been updated and it is now a \$2,000 threshold, but the DMV limit has not been updated or adjusted for inflation in 33 years. The threshold is currently set at \$501 and this would raise the threshold to \$2,000.

MS. SCHLINGHEYDE explained that that amount is also in Sections 7-10, and 13, which is updating that threshold.

MS. SCHLINGHEYDE advised that Section 11 adjusts the SR-22 requirement, vehicle liability insurance document for a high-risk insurance policy. People are required to carry SR-22 insurance after an accident or traffic offense, and this section requires the person to carry SR-22 insurance for 10 years rather than for a lifetime as that is an undue financial hardship.

MS. SCHLINGHEYDE advised that Section 12 allows for a new installment payment plan, rather than automatic suspension of a license when the license is suspended due to an outstanding financial judgment.

MS. SCHLINGHEYDE advised that Section 14 is cleanup for Section 2, allows updating DMV with address changes if the person has given permission to DMV to update addresses from the USPS database.

[4:01:23 PM](#)

CHAIR KREISS-TOMKINS noted that this legislation is merely a starting point, it is an amalgam of indirect expenditure recommendations from the Legislative Finance Sub-committee and the DMV recommendations.

REPRESENTATIVE WOOL referred to Section 11 regarding SR-22s, and said he assumes it has little to do with the DMV and is rather a policy call because buying SR-22 insurance is between the driver and the insurance company, and not the DMV.

MS. SCHLINGHEYDE answered that the DMV statutes require proof of financial responsibility and the driver must submit a form to the DMV showing the SR-22 insurance was purchased. After ten years, this section would eliminate the requirement to submit that form to the DMV.

REPRESENTATIVE WOOL advised that he had to buy SR-22 insurance at one point, but it was for a shorter period of time than 10 years. He asked whether it is currently that if a person has an accident, they must buy SR-22 insurance for life.

[4:02:50 PM](#)

MARLA THOMPSON, Director, Division of Motor Vehicles (DMV), Department of Administration (DOA), responded that SR-22 insurance is not required, for most judgements, for more than a few years, but some judgements are for a lifetime and the DMV wanted to change it to ten years. She explained that it is "not for a normal DUI SR-22 because that is normally five years."

REPRESENTATIVE WOOL requested a description of the level of infractions that would require lifetime SR-22 insurance.

MS. THOMPSON deferred to Michael Stanker, Department of Law.

[4:03:57 PM](#)

MICHAEL STANKER, Assistant Attorney General, Civil Division, Labor & State Affairs Section, Department of Law (DOL), advised that he would have to conduct additional research and get back to the committee as to all of the instances where SR-22 insurance is required, and for the length of time for those different conditions.

[HB 409 was held over.]

SB 204-DISABLED VET PLATES:CHIROPRACTORS CERTIFY

[4:05:31 PM](#)

CHAIR KREISS-TOMKINS announced that the next order of business would be SENATE BILL NO. 204, "An Act relating to special

registration plates for vehicles owned by veterans with disabilities."

[4:05:52 PM](#)

PETER NAOROZ, Staff, Senator Dennis Egan, Alaska State Legislature, advised that SB 204 was drafted to return chiropractors to the list of people who can authorize qualified individuals with disabilities to receive handicap parking placards and license plates. The Alaska Division of Motor Vehicles offers several types of disability parking placards and license plates, temporary and permanent, which are depicted on the license itself. Until 2016, the DMV's process allowed for chiropractors to be among those who qualified individuals for those plates and permits. In 2016, the attorney general, after reviewing the statutes and authorizations, determined that chiropractors were not specifically mentioned. This legislation rectifies that issue in Section 1, [AS 28.10.181(d)] which specifies the types of chiropractors listed in accordance with AS 08.20. The sponsor believes this is a good bill for the public-at-large, he advised, and individuals with disabilities who are already under treatment by a chiropractor, should not have to pay for an additional visit to a medical doctor.

[SB 204 was held over.]

[4:09:29 PM](#)

The committee took an at-ease from 4:09 p.m. to 4:10 p.m.

HJR 30-URGE U.S. SUPPORT OF REFUGEES

[4:10:12 PM](#)

CHAIR KREISS-TOMKINS announced that the next order of business would be HOUSE JOINT RESOLUTION NO. 30, Urging the United States Congress to reaffirm the commitment of the United States to promote the safety, health, and well-being of refugees and displaced persons; urging the United States government to uphold its international leadership role in responding to displacement crises with humanitarian assistance and to work with the international community and the United Nations High Commissioner for Refugees to find solutions to conflicts and protect refugees; and urging the President of the United States to continue to mitigate the burden placed on frontline refugee host countries.

[4:10:16 PM](#)

REPRESENTATIVE ANDY JOSEPHSON, Alaska State Legislature, advised that HJR 30 was inspired by a Colony Middle School student who flew to Juneau during the January-February timeframe of this year, and they presented this legislation to the House Community and Regional Affairs Standing Committee. This resolution expresses concern, sympathy, and compassion for refugees and displaced persons. Originally, the sponsor focused on Syrian refugees, except this resolution is broader and is designed to reflect this historical moment, the compassion of the Alaska Legislature, and Alaska's concern for folks who are displaced based upon civil strife. For example, he offered, their fear of sexual violence, human trafficking, forced conscription, genocide, and other horrible situations that they may confront. The resolution is fairly self-explanatory and given the circumstances in Syria this week, it is unfortunately topical, he opined.

[4:12:15 PM](#)

REPRESENTATIVE WOOL noted that 65,600,000 people are displaced worldwide and asked Representative Josephson's sense of obligation the United States should attempt to absorb.

REPRESENTATIVE JOSEPHSON responded that this subject came up in the House Community and Regional Affairs Standing Committee. Some people believe that the United States is not fully doing its fair share given its resources and capacity, and the burden is held more by Western Europe, for example, than America. He explained that the intent of this resolution was not so much as to get into that issue, as to simply mark this moment in history and note that the people of Alaska and their legislators are compassionate people, that they are aware of the crisis, and if called upon "we would certainly lend a hand." He said, "Beyond being called upon, that we would individually, if not collectively, that we would assert ourselves and do whatever we can do."

[4:14:04 PM](#)

REPRESENTATIVE LEDOUX asked Representative Josephson what exactly he wanted to see with respect to this resolution, what "are we not doing that you think we should do?"

REPRESENTATIVE JOSEPHSON answered that the resolution directs that the United States government do what it can in partnership with the international community, that it work with non-

governmental organizations, that it mitigate the harm, that it use its resources the best it can, and that those sorts of things should continue and be re-enforced.

[HJR 30 was held over.]

[4:15:33 PM](#)

The committee took an at-ease from 4:15 p.m. to 4:16 p.m.

SB 196-APPROPRIATION LIMIT; BUDGET RESERVE FUND

[4:16:28 PM](#)

CHAIR KREISS-TOMKINS announced that the final order of business would be CS FOR SENATE BILL NO. 196(FIN)(efd fld), "An Act relating to an appropriation limit; and relating to the budget responsibilities of the governor."

[4:16:39 PM](#)

SENATOR PETER MICCICHE, Alaska State Legislature, pointed out that the sponsors conducted some statewide polling and he found it interesting the percentage of people who support a spending limit. He noted that the high level of support was not specific to party, region, or demographic, and every region was above 75 percent [of the people polled]. The state relies on a single commodity to fund more than 85 percent of the state's governmental services, and although the operating capital budgets have been cut by over \$3 billion in the last four fiscal years, the state continues to draw from its savings accounts to fill the gap between revenue and expenditures. He advised that this legislation sets an appropriation limit and referred to a chart titled "SB 196 Appropriation Limit" demonstrating the spending limit plotted in a couple of different ways. He explained that the top purple line is the existing statutory appropriation limit, the red line is the actual spend. There are two parallel lines, the blue line is deflating from the current spend back to around 1999, and the green line is inflating at this appropriation limit trend through today.

SENATOR MICCICHE advised that the chart demonstrates why this is important, "we've gotten back into this band and had we avoided getting out of this band, we would have approximately \$15 billion more in saving right now. We wouldn't have reduced dividends, we wouldn't have been talking about broad-based taxes, and we have would have been delivering quality

constitutionally protected services in the meantime." This bill requires the legislature to prioritize state spending going forward so it does not find itself in the same situation, he remarked.

[4:19:51 PM](#)

SENATOR NATASHA VON IMHOF, Alaska State Legislature, described that Alaskans are living in a "feast or famine" environment with the primary single source of revenue being oil. Alaskans can effectively live in that environment if there is control over spending whereby the state's spending does not necessarily match the revenue that may jump or fall over the course of time. She noted that history has revealed that the state had huge jumps in revenue between fiscal years 2010 and 2014, that there have been feasts and famines in the past. Over the last 25 years, she pointed out, the state put money into the constitutional budget reserve (CBR) and borrowed from the CBR during the times it was necessary to fund the deficit. She acknowledged that between the years 2010 and 2014, the state did not control its spending and the state matched its spending to revenue; and when revenue started falling in 2015 and the state could not contract its spending fast enough. As a result, she offered, to what Senator Micciche stated, approximately \$15 billion was left on the table by money that was not put into savings during the good years, and additional money was removed to cover large deficits because the state had large budgets during the falling revenue years. This legislation, she related, helps future growth in spending in order to avoid the big jumps and big falls in spending, which creates much anxiety and uncertainty in the state. She explained that the bill grows spending over time in a predictable rate based on what most other states use, which is usually the consumer price index (CPI) for their state. It is an agreed upon set of principles that the entire bodies of the legislature agree to set their budgets on each year, she commented. A spending cap brings predictability and sustainability to Alaska's budget process and is a key ingredient in a bi-annual budget, which is a two-year budget. She opined that that will avoid this type of conversation with pink slips for educators, and so forth. This legislation is meant to ease the anxiety and provide predictability and sustainability, she described.

[4:22:42 PM](#)

REPRESENTATIVE LEDOUX advised that she supports the concept of a spending limit and asked why Senator Micciche believes the

legislature will adhere to a spending limit because it is in statute, any more than it has adhered to paying out the permanent fund dividend (PFD) according to the formula set in statute, for example. The legislature's track record in following the statutes is sometimes not 100 percent, she commented.

SENATOR MICCICHE responded that the Senate Majority discussed the fact that this is a test and the real objective is that this translates into a constitutional spending limit. He stressed that the goal is to make sure it is right, so it has a look back and he is hesitant to change the Alaska State Constitution until it is somewhat time tested. He commented that, "If we find that we are successful ... so soon after we pass statutory items that the legislature weighs in on heavily and heavily supports, we have a tendency to stay very close to that." In time, as the new legislators come in, they are not particularly married to that past statutory structure. Although, he opined, the legislature has time to determine within the next two years whether this proves to be the right trend of spend going forward, and subsequently, hopefully there would be a constitutional amendment the people of Alaska would support.

[4:24:31 PM](#)

REPRESENTATIVE BIRCH commented that he thinks "this is great," and at the municipal level there are tax caps with some sort of institutional limits or boundaries on spending. He reiterated that this is good, it could possibly be modified over time, but it is helpful to have a road map on spending.

REPRESENTATIVE KNOPP noted that he agrees with the sponsor statement in creating exemptions for the payment of permanent funds, capitol projects, state debt obligations, but he is concerned about the receipt supported services. He pointed out that the state does not have diversified growth funds (DGF) and every department now has receipt supported services. This legislation does not appear to cap receipt supported services, and over the last couple of years, almost every department has raised fees in one form or another. He asked whether that issue should have "fallen under unrestricted general fund (UGF). You know we've really strayed I think, from what we said is not general fund (GGF), but we're calling it GGF."

SENATOR VON IMHOF responded that there were discussions about what a spending cap might include, such as, UGF only or all state funds including DGF and other state funds. The decision

was UGF because it is important to provide the departments and the university with flexibility to raise fees and what they believe the market will bear. President Jim Johnsen, University of Alaska, stated on the record that the University of Alaska is subsidized by the state more than any other Western university. In the event the university decides to raise tuition, the state should allow them to do so and not necessarily be stymied by a spending cap, the same goes for hunting fees and fishing regulations. There is a point where market equilibrium will dictate whether a price is too high, and it is more appropriate for the departments to retain that autonomy and flexibility.

[4:27:31 PM](#)

REPRESENTATIVE WOOL referred to the previously described chart, and when Senate Micciche said "we've left the band" he assumed that is between the parallel green line and the parallel blue line, and the red line is state spending. He commented that it looks like "we're actually back in the band the last couple of years."

SENATOR MICCICHE answered that Representative Wool was correct, the \$15 billion that disappeared is the difference between the blue line and the red line when the red line is outside of the two parallel lines.

[4:28:14 PM](#)

REPRESENTATIVE WOOL referred to the statement that 85 percent of Alaska's governmental services rely upon a single commodity and advised that that statement is probably no longer valid "and may not be for some time in the foreseeable future." He asked how Senator Micciche would adjust that statement.

SENATOR MICCICHE replied that he did not know that he would because if a percent of market value (POMV) passes, or any other arrangement that will pay the state's bills, it is still a single commodity generated with the escalation from earnings. He related that Representative Wool was converting production from the past into funding for the future, so "I don't know that you've moved outside of that band. I think you picked up a higher proportion of that band and likely will in perpetuity. Particularly, if we can get an agreement on what our spending should look like today and how it should escalate in the future." The primary point of the chart is, "with relatively little discomfort we are back in that band." Obviously, he advised, it is doable because "as a team we've done it together

with UGF spending. If we can maintain being within that band in the future, we can avoid those spikes in spending with some outlets for things that when we do have high revenues, we have the ability to catch up on things like deferred maintenance and other projects that may be lagging at the moment."

[4:29:51 PM](#)

REPRESENTATIVE WOOL surmised that this legislation proposes that the \$4.1 billion will not include capital projects and asked whether the red line of spending also follows that same exclusion of capital projects. He opined that that is a big part of the deduction from FY14 through FY18, for example.

SENATOR MICCICHE described that "this discussion is 'apples to apples' on operating."

[4:30:23 PM](#)

CHAIR KREISS-TOMKINS asked whether there have been any discussions about extending the spending cap to the capital budget.

SENATOR VON IMHOF answered that there have been some discussions about a potential waterfall if oil revenues or other revenues exceed the spending cap. For example, she advised, what has priority on a certain percentage, or a certain dollar amount when there are competing interests, such as PERS and TERS, debt payments, repayment to the constitutional budget reserve (CBR), capital, possibly school education, building, matching funds, and things of that nature. Those discussions have taken place and "we have not necessarily landed on anything at this point, and we are open to feedback."

SENATOR VON IMHOF, in response to Representative Wool's question, advised that he is correct that past oil revenues have been a much higher percentage of revenue, absent of a POMV, and it still remains the highest or dominate revenue force. She commented that one would argue that even with a POMV, in its own way it is from oil revenue in its origin. Moving forward, it is believed that starting with a "4.1 UGF" is realistic based in the world market of what the state can afford with the current oil revenue, production, and opportunities through SB 21, the oil tax legislation. She related that this is realistic and makes sense based upon current information, but as Senator Micciche advised, this is a trial period with a three-year lookback, and at that time there will be a determination as to

whether the rate makes sense. The rate in the Alaska State Constitution currently "is a little high," it is both population and CPI and it is too big of a growth rate, it does not work. This should have probably been reviewed 20 years ago, she offered.

[4:33:08 PM](#)

REPRESENTATIVE WOOL offered appreciation for the statement that the source of revenue originally was oil, the revenue went into a fund, the fund is invested, and the state uses that as its number one source of revenue. He surmised that it is not direct oil revenue, but that oil is on the fund. He asked whether the CPI takes into account surging healthcare costs that are higher than inflation.

SENATOR VON IMHOF advised that that CPI is everything and the Anchorage CPI is, in essence, the statewide CPI. Alaska is one of the few states that has the dominant city representing the state. She said that she has a 30-year lookback available, and advised that in 2016, the CPI range was negative point one, all the way to approximately 4.6 in one given year. The CPI does fluxuate when the price of oil and the price of housing and healthcare rises, but then it goes down, and when looking at it over time it is "pretty level and our numbers work," she advised.

[4:34:46 PM](#)

CHAIR KREISS-TOMKINS asked whether there is any other sort of idiosyncrasy in the CPI where there could be a CPI calculated for Anchorage that in any way has a large delta from what the sort of de facto statewide CPI would be.

SENATOR MICCICHE answered as follows:

So, a very direct example of that was right went the price of oil went from \$107 a barrel down to \$29. You are going to see an offset, you are going to see a state that is used to a very high level of revenue, many more high-paying jobs, rents were up, renting a storefront, many materials were at a much higher price and suddenly you had a revenue drop. There are times when there is a lag, but considering it is the actual costs of the primary drivers due to the cost of living in Anchorage, it generally catches up in a relatively short order. The reason that capital is excluded, is

because you can shut it off like a faucet, like we did. That is not our problem in spending. It can be a problem in spending when you are building community centers in the middle of nowhere that, unfortunately, have operating dollars attached to them. That can be a problem. But, as you saw in 2014 and 2015, we were able to make that immediate reduction. You don't have bodies attached to it, you don't have employees and their families attached to it, you don't have their healthcare and their retirement, and all that other burden that's so difficult to reduce. So, UGF spend in our operating budget is the key exposure and that is what made this so uncomfortable over the last couple of years. And where, in my view, we are still not spending at the place where we should be spending for a state of 740,000 people.

[4:37:19 PM](#)

SENATOR MICCICHE pointed to the sectional analysis [contained within the committee packet] and offered to answer questions prior to the next hearing.

[SB 196 was held over.]

[4:37:46 PM](#)

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 4:37 p.m.