

SENATE FINANCE COMMITTEE
March 6, 2017
9:01 a.m.

9:01:56 AM

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Mike Dunleavy
Senator Peter Micciche
Senator Donny Olson
Senator Natasha von Imhof

MEMBERS ABSENT

None

ALSO PRESENT

Randall Hoffbeck, Commissioner, Department of Revenue; Emma Pokon, Attorney, Department of Law; Senator Bert Stedman, Sponsor; Alexei Painter, Analyst, Legislative Finance Division.

SUMMARY

SB 21 PERMANENT FUND: INCOME; POMV; DIVIDENDS

SB 21 was HEARD and HELD in committee for further consideration.

SB 26 PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS

SB 26 was HEARD and HELD in committee for further consideration.

SB 70 APPROP. LIMIT/BUDGET PROCESS/PERM FUND

SB 70 was SCHEDULED but not HEARD.

#sb26

SENATE BILL NO. 26

"An Act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska permanent fund, and the earnings reserve account; relating to the mental health trust fund; relating to deposits into the dividend fund; relating to the calculation of permanent fund dividends; relating to unrestricted state revenue available for appropriation; and providing for an effective date."

9:02:47 AM

RANDALL HOFFBECK, COMMISSIONER, DEPARTMENT OF REVENUE, wanted to walk through SB 26, and noted that many of the slides were very similar to what was discussed the previous week when the committee considered SB 70. He informed that he would highlight the differences between the two presentations in slides 1 through 25.

Co-Chair MacKinnon asked if Commissioner Hoffbeck could review the document for the benefit of the public.

Commissioner Hoffbeck discussed the presentation "Permanent Fund Protection Act," (copy on file). He turned to slide 2, "BASIC ELEMENTS OF SB 26":

The Permanent Fund Protection Act proposes:

1. A framework for sustainable withdrawals from the earnings reserve account (ERA) and
2. A sustainable dividend formula.

Commissioner Hoffbeck noted that there were several companion documents [a 5 critical tests document, a one-page overview of the Alaska Permanent Fund Protection Act, a 12-page narrative white paper, and a sectional analysis]. He considered that the two points on the slide were critical for the durability of any plan.

Commissioner Hoffbeck looked at slide 3, "PRESENTATION OVERVIEW":

Part I: The Permanent Fund's Role in a Solution

Part II: Structure for Using the Permanent Fund
Part III: Modeling Background
Part IV: Draw Durability
Part V: Dividend Durability
Part VI: Fund Durability & Inflation Proofing
Part VII: Fiscal Plan Impact

Commissioner Hoffbeck informed that there was seven parts to the presentation.

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Commissioner Hoffbeck read slide 4, "Part I - THE PERMANENT FUND'S ROLE IN A SOLUTION."

Commissioner Hoffbeck spoke to slide 5, "USE OF PERMANENT FUND EARNINGS":

"This proposal, if approved, would amend the Constitution of the State of Alaska by ... establish[ing] a constitutional permanent fund into which at least 25 percent of all [mineral royalties] received by the State would be paid. The principal of the fund would be used only for income-producing investments permitted by law and the income from the fund would be deposited in the general fund of the State and be available to be appropriated for expenditure by the State unless otherwise provided by law."

Ballot Proposition No. 2
Permanent Fund from Non-Renewable Resource Revenue
Constitutional Amendment

Commissioner Hoffbeck highlighted the last line of the slide. He thought there had always been intent within the structuring of the Permanent Fund that it would eventually be used for state expenditures.

Commissioner Hoffbeck discussed slide 6, "WHY USE PERMANENT FUND EARNINGS,":

FY18 Budget \$4.3 billion
FY18 Budget Gap \$2.8 billion
Potential Tools to Close the Gap
Motor Fuels Tax Increase \$0.1
Broad Based Tax \$0.6

Oil Tax Credit Reform \$0.1
Max. Cuts Proposed (over 3 years) \$0.75
SB26 (net dividend) \$2.0

Commissioner Hoffbeck expanded that SB 70 had generated about \$1.9 billion; the difference between it and SB 26 was how royalties were treated between the dividend and the income. He stated that the governor had expressed a preference for a revenue solution, but was open to a broad discussion on revenues versus expenditure reductions. The governor had expressed in an op-ed piece that he would accept whatever the legislature agreed upon within terms of a revenue solution.

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Commissioner Hoffbeck turned to slide 8, "STRUCTURE FOR USING THE PERMANENT FUND":

1. Rule-Based Framework (Saving, Spending, Dividend)
2. Stabilize the Budget
3. Protect the Dividend
4. Protect the Permanent Fund
5. Maximize the use of the Earnings Reserve

Commissioner Hoffbeck relayed that the slide listed the five tests the administration used for reviewing any plans being presented that involved changing the Permanent Fund. The various plans had a robust hearing history. He thought SB 26 was very similar to SB 128 [legislation from 2016 dealing with the Alaska Permanent Fund Corporation], and he would discuss the differences in a later slide. There had been many hearings, community meetings, and a review of global best practices as to how a sovereign wealth fund should be used.

Commissioner Hoffbeck looked at slide 9, "STRUCTURE FOR USING THE PERMANENT FUND":

A plan to use the fund should be ...

1. Rule-Based (Saving, Spending, Dividend)
 - Greatest threat to long term fund durability is unplanned withdrawals
 - Withdrawals need to occur under a set of statutory rules

- o Designed to protect the fund and guard against unsustainable uses
- o Ensure the ERA holds enough to bridge years of low earnings ("ERA durability")

Commissioner Hoffbeck stated that it was critical to know how much could be spent in order to still maintain a sufficient balance in the Permanent Fund and the Earnings Reserve Account (ERA). He stated that a great deal of time had been spent modelling various bills to ensure that plans were durable and would last over time.

Commissioner Hoffbeck reviewed slide 10, "STRUCTURE FOR USING THE PERMANENT FUND":

A plan to use the fund should be ...

2.Stabilizing:

- Over the long term, economies that experience repeated ups and downs grow slower than stable economies.
- Because commodity prices are volatile, economies dominated by a single commodity industry, like the petroleum industry, experience more (and more pronounced) cycles.
- Permanent Fund Earnings can play a central role in reducing four decades of boom and bust budgeting cycles.

Commissioner Hoffbeck noted that stability was associated with economic growth. He mentioned the "resource curse," which described a funding source that was primarily based on a volatile and singular revenue stream, which tended to slow economic growth over time. He thought it was critical to stabilize the government component of the economy to the extent it was possible. He thought it was possible to structure income from investments and oil together in such a way to reduce volatility out of the budgeting process for state expenditures.

[9:09:33 AM](#)

Commissioner Hoffbeck looked at slide 11, "STRUCTURE FOR USING THE PERMANENT FUND":

A plan to use the fund should...

3. Protect the Dividend

- Reflects the current and future economic realities of shrinking oil and gas tax revenue.
- Recognizes that too large a dividend limits available options for full fiscal solutions.
- Provides for a sustainable dividend for all generations of Alaskans.

Commissioner Hoffbeck discussed the one-page document "Permanent Fund Protection Act," dated February 6, 2017 (copy on file).

Commissioner Hoffbeck noted that protecting the Permanent Fund Dividend (PFD) became a critical issue after speaking around the state and talking with constituents. He had found relative consensus regarding use of the Permanent Fund, but people considered that the dividend was part and parcel of the economics of the state and should be preserved at some level.

Commissioner Hoffbeck reviewed slide 12, "STRUCTURE FOR USING THE PERMANENT FUND":

A plan to use the fund should...

4. Protect the Permanent Fund

- Meant to provide for funding state expenditures for all generations of Alaskans.
- Maintain or grow the real (inflation-adjusted) value of the permanent fund.
- Withdrawing too much is unsustainable and risks damaging the fund.

Commissioner Hoffbeck discussed slide 13, "STRUCTURE FOR USING THE PERMANENT FUND":

A plan to use the fund should ...

5. Maximize the use of the Permanent Fund Earnings:

- As North Slope production declines, the fund's earnings will be increasingly important in eliminating the fiscal imbalance in order to sustain public services.
 - Similar to petroleum revenue, investment earnings can be highly variable.
 - Unlike petroleum, our financial reserves are a renewable resource.
- Withdrawing too little limits future options for full fiscal solutions.
- Other proposed new revenues and cuts could reduce the deficit by millions, the fund can sustainably contribute billions.

Commissioner Hoffbeck stated that in order to maintain the durability of the Permanent Fund, there needed to be situation where there was less chance of an unplanned unstructured draw. In order to do so, it was necessary to put as money as possible in the structured portion of the fund in order to close the fiscal gap to the greatest extent possible.

Commissioner Hoffbeck looked at slide 15, "MODEL SOPHISTICATION and VETTING":

- Key aspects of the model
 - Probabilistic treatment of oil prices, oil production, investment returns
 - Focus on detail of how money flows between permanent fund, general fund, and dividends
 - Assumptions from objective sources
 - Monte Carlo simulations
- Vetted by McKinsey last year
 - Found no major mechanical errors, reasonable assumptions
 - Approved of Monte Carlo probabilistic method
 - Suggested improvements, some of which the Department of Revenue (DOR) has incorporated (for example, probabilistic oil production, autocorrelation)

Commissioner Hoffman relayed that there had been robust probabilistic modelling of production and price.

[9:13:02 AM](#)

Commissioner Hoffbeck reviewed slide 16, "METHOD, INPUTS, AND ASSUMPTIONS":

- Permanent Fund Starting Value: \$54.9 billion
 - Realized portion of corpus: \$37.9 billion
 - Realized portion of earnings reserve account (ERA): \$9.7 billion
 - Unrealized earnings held by the fund: \$6.3 billion
 - Starting value based on
 - APFC forecast for end of fiscal year 2017 (FY17), without inflation proofing transfer for FY17
 - Because APFC accounts for October 2017 dividends in FY17, scenarios starting with \$1,000 per person dividends begin with a higher realized ERA balance of \$10.6 billion and a total fund balance of \$55.8 billion.
- Investment Return: Callan Associates' 10-year forecast
 - Total return: 6.95% geometric, 12.32% standard deviation
 - Statutory return: 6.24% mean, 2.24% standard deviation
 - Inflation rate: 2.25%

Commissioner Hoffman stated that the base assumptions discussed in the slide were consistent with all the Permanent Fund bills that the department considered. The assumptions were based on the Permanent Fund's forecast for the end of the year FY 17. He stated that the numbers on the slide were lower than what actually resided in the fund, due to an unexpectedly higher year of returns; which resulted in another level of conservatism in the projections. The department had used Callan and Associates' ten-year forecast for total returns, statutory returns, and an inflation rate.

Commissioner Hoffbeck discussed slide 17, "METHOD, INPUTS, and ASSUMPTIONS":

- Petroleum Revenues:
 - o Oil price: Probabilistic analysis of ANS oil prices using a PERT distribution from the fall 2016 price forecasting session.
 - o Production: Probabilistic analysis of ANS oil prices using a PERT distribution from the DNR forecast in Fall 2016 RSB

- CBR: \$4.4 billion beginning of year 2018 balance & a 2.25% rate of return.

Commissioner Hoffman noted that the probabilistically modelled oil price and production and were noted in the Fall Revenue Forecast.

Commissioner Hoffbeck displayed slide 18, "BUDGET ASSUMPTIONS," which showed a graph depicting the baseline for UGF revenues for all revenues except unrestricted royalties and production taxes, which were modelled separately. The blue line was the ten-year Office of Management and Budget (OMB) forecast, which was extended with inflation after ten years.

Senator Micciche asked to go back to slide 18, and inquired if the assumption for inflation was 2.25 percent.

Commissioner Hoffbeck answered in the affirmative.

Senator Micciche asked if the first four years were flat because of assumed reductions.

Commissioner Hoffbeck needed to look at the details as to why the years were flat, and conveyed that the first three years assumed some budgetary restraint.

Senator Micciche asked if the commissioner would agree that the most challenging part of the model was assuming what the future would be, and which plan covered the largest portion of the gap. He thought the OMB ten-year plan did not account for revenues, and was just a comparison based on what was known of the past for growth.

Commissioner Hoffbeck stated that there was a challenge both in forecasting and the reality of some of the formula programs that were currently in statute, and that tended to grow over time. He recounted that there had been \$240 million to \$260 million in the current budget between one-time expenditures and formula growth that needed to be stripped from the budget to get to a zero budget. He thought there were a lot of issues to consider when holding the line on expenditures, and even more issues when reductions were considered. He also thought there were many issues to consider when pondering new revenues.

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Commissioner Hoffbeck looked at slide 19, "LAST SESSION'S WORK":

Last year, the 29th Legislature held 39 hearings on the Permanent Fund Protection Act (SB128, HB245, and SB5001):

- SSTA: 10 hearings, including 2 days of public testimony
- SFIN: 10 hearings, including 1 days of public testimony
- HFIN: 19 hearings, including 4 days of public testimony

Other bills addressing the use of permanent fund earnings were also considered:

- SB114: 7 hearings in SSTA, 9 hearings in SFIN
- HB303: 4 hearings in HFIN
- HB224: 4 hearings in HFIN

SB26 is a slimmed down version of the Permanent Fund Protection Act passed by the Senate last year. It is the same as the CS for SB128, but without provisions re.:

- CBR management
- APFC procurement
- Spending cap

Commissioner Hoffbeck noted that the slide talked about the genesis for SB 26, which was largely based on SB 128. He discussed the provision for moving Constitutional Budget Reserve (CBR) management to the Alaska Permanent Fund Corporation (APFC), which had been left out of SB 26. He recounted that APFC Executive Director Angela Rodell had testified that she would have similar struggles in terms of investment returns on the CBR until there was a structure around the timing of draws.

Commissioner Hoffbeck showed slide 20, "PFPA: SCENARIO":

- Corpus Deposits:
 - o 25% of royalties
 - o Any ERA balance over 4 times the full POMV calculation (after the current year draw) is transferred to the corpus (inflation proofing mechanism or "4 times" rule).

- Draw Calculation:
 - Maximum POMV: 5.25% of the average fund value in the first 5 of the last 6 years.
 - Draw Limit: The maximum POMV amount is reduced by \$1 for every \$1 that UGF royalties and production taxes exceed \$1.2 billion.
- Dividend Calculation:
 - 20% of the maximum POMV payout before reductions, plus 20% of UGF royalties
 - Overwriting the above calculation, the October 2018 dividend is \$1,000 per person (the 2017 dividend is reflected in the starting fund value)

Commissioner Hoffbeck informed that the treatment of the corpus deposits was the same as under SB 70 as was the draw calculation for the first 4 or 5 years. The dividend calculation under SB 70 was 25 percent of POMV, while under SB 26 the dividend calculation was tied to investment returns and oil and gas development and success.

Commissioner Hoffbeck displayed slide 21, "Part IV - DRAW DURABILITY."

Commissioner Hoffbeck turned to slide 22, "POMV DRAW,":

- 5.25% of the average fund value in the first 5 of the last 6 years
- Example: draw calculation for fiscal year 2018
 - Average fund value in the first 5 of the last 6 years = \$48.1 billion
 - 5.25% of \$48.1 = \$2.5 billion
 - Effective POMV: = 4.7% of 2017 value
- Aggressive, but sustainable ... if the draw limit is applied

Commissioner Hoffbeck stated that the slide was a review of the POMV draw at 5.25 percent, and was the same as shown under SB 70. The slide showed the net effect of a 5.25 percent draw when using five of the prior six years. The draw was effectively a 4.7 percent draw.

Commissioner Hoffbeck showed slide 23, "THE EFFECTIVE POMV":

Based on historic fund values, these "snapshot" POMV calculations demonstrate that, 5.25 percent of the fund's average market value in the first 5 of the preceding 6 years is generally less than 5.25 percent of the fund's current value.

Commissioner Hoffbeck stated that the bar graph on slide 23 showed the effective Percent of Market Value (POMV) draw in five-year increments back through 1995. The draw was generally in the 4 percent to 4.5 percent range; with the exception of 2006-2010, which was at 5.32 percent. There would be variation in the POMV, but it appeared as though it would be within the range of 4.5 to 5 percent, which was modelled as durable.

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Commissioner Hoffbeck discussed slide 24, "DRAWLIMIT

- Reduces the POMV draw by \$1 for every \$1 that UGF production taxes and royalties exceed \$1.2 billion.
- Does not apply to the portion of the POMV going to dividends.

Commissioner Hoffbeck looked at slide 25, "POMV & DRAW LIMIT," which graphically showed the ERA draw started to reduce over time. He recalled that Senator Micciche had posed some questions about the location of trigger points. The oil production tax reached \$1.2 billion somewhere between \$65/bbl and \$70/bbl. A reduction in the draw could be seen at about \$72/bbl, and at around \$100/bbl there was no draw on the ERA.

Commissioner Hoffbeck displayed slide 26, which showed a graph entitled "Median UGF Revenue and Budget." He recalled a question by Senator Micciche about the unfunded portion of government expenditures under the plan, which the green bars on the graph were trying to forecast. The dark blue represented status quo revenue, the yellow was the planned Permanent Fund withdrawals, and the green were other fiscal measures necessary to balance the budget over the life of the plan. He observed that there was a short-term window of

opportunity to close the fiscal gap, but a long-term issue to address as well.

Co-Chair MacKinnon asked for a footnote to illustrate that the green bars representing "Other Fiscal Measures" could include any combination of budget cuts.

Commissioner Hoffbeck agreed with Co-Chair MacKinnon, and indicated that the wordage had signified it could be either cuts or new revenues.

Commissioner Hoffbeck turned to slide 27, "STATUS QUO UNRESTRICTED GENERAL FUND REVENUE," which showed a chart depicting the impact of additional production and additional price on the amount of revenue available for government expenditures. The slide reflected total UGF revenue, and included all of the revenues including oil and gas taxes and royalties. He noted that income taxes adjusted with oil price and production changes. He thought it was possible to see where the fiscal gap could be closed with increased production and oil price.

Commissioner Hoffbeck turned to slide 29, "DIVIDEND FORMULA":

- \$1,000 per person for the first 2 years, then
- 20% of UGF royalties (15% of all royalties), plus 20% of the 5.25% POMV draw (about 1% POMV)(expected to be about \$1,000 per person into the future)

Commissioner Hoffbeck stated that the dividend formula was slightly different than what was under SB 70.

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Commissioner Hoffbeck looked at slide 30, "PFPA, FULL FISCAL PLAN," which showed a graph illustrating the dividend per person under the Permanent Fund Protection Act (PFPA). He stated that the median was the intersection of the yellow and blue bars, which was the most likely occurrence of the dividend amount. The graph showed the 2041 median value of the dividend to be \$1,468 in nominal dollars. The dividend's real buying power would be reduced over time. He compared the value with the dividend projection under SB 70, which had a nominal dollar value of \$1,603. The dividend grew faster under SB 70 than under SB 26.

Commissioner Hoffbeck turned to slide 31, "20/20 DIVIDEND (OCT. 2017)," which was a new slide to show the relative impacts at higher oil production and higher price.

Commissioner Hoffbeck discussed slide 33, "INFLATION PROOFING TRANSFERS":

- AS 37.13.145(c) currently provides for annual inflation proofing transfers from the ERA to corpus.
- The ERA needs a sufficient balance to be able to meet the draw each year ("ERA durability" concern).
- To address this concern, the bill provides that the ERA balance over 4 times the maximum draw (after current year draw) is transferred to corpus instead.
- This "4 times" rule is designed to grow the corpus in pace with inflation over time.

Commissioner Hoffbeck looked at slide 34, "PFPA, FULL FISCAL PLAN," which showed a graph that demonstrated how much the Permanent Fund itself would grow under the full fiscal plan, with no unplanned draws against the fund. He pointed out that the graph started out at approximately \$54.9 billion as an assumed fund balance, which would grow to \$61 billion during the 24 years of the modelling. He pointed out that the ERA fail rate over 24 years was approximately 1.52 percent. He recalled that under SB 70, the real value of the fund grew to about \$66 million. The fund grew slightly higher under SB 70 than under SB 26, and the failure rate under SB 70 was less than 1 percent. Both rates of failure were within the errors of the modelling and indicated that there was little chance of either of two plans having a failure during the life of the modelling.

Commissioner Hoffbeck presented slide 36, "FUND SIZE COMPARISON," which showed a line graph that compared the relative fund value over time for SB 26, SB 70, SB 21, and the status quo. He observed that the fund value grew in a very similar fashion over time for all the plans. He commented that all were substantially greater than the growth from the status quo.

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Commissioner Hoffbeck showed slide 37, "UGF REVENUE COMPARISON," which showed a line graph depicting the amount of monies available for government expenditures under the three plans. He observed that the PFFPA yielded just slightly more than SB 70. He considered that there was an issue with SB 21 in that it provided substantially less money available for government expenditures, and in doing so created a greater risk of unplanned draws from the Permanent Fund.

Commissioner Hoffbeck showed slide 39, "Conclusion," which was a narrative comparison of plans shown on a table. He stated that it was similar to the chart used for SB 70, but with a few changes reflecting some of the comments by members at the committee hearing. He pointed out that all of the plans had substantial risk if the fiscal problem was not fully dealt with. He reiterated the risk of unplanned draws. If there weren't a sufficient amount of expenditure reductions or sufficient additional revenue, the only other source of income after the CBR was depleted was the ERA.

Commissioner Hoffbeck summarized that the three bills being considered in the meeting were all rules-based, and all had a five-year averaging of the POMV and had some investment income stabilization. He continued that SB 21 had no defined plan as to how to deal with the total revenue issues, while the PFFPA had a partial stabilization of total revenues with the four-times draw and the turning off of the ERA flows from oil price increases. The bill did not deal with volatility of other revenues within the system.

Commissioner Hoffbeck continued to discuss slide 39, and pointed out that SB 70 had a spending cap, and had more of an ability to deal with other revenues. All three plans protected the dividend. Both SB 26 and SB 70 protected the corpus of the Permanent Fund. Under SB 21, the fund would grow and keep it's buying power over time, but there was no process for moving monies back into the corpus. Without such a process the corpus would remain flat and all of the growth would reside in the ERA. He did not feel SB 21 used enough money to close the fiscal gap by maximizing use of the ERA. The PFFPA maintained a 5.25 draw, which he considered the maximum draw; while SB 70 maintained a 5 percent draw over time.

[9:34:20 AM](#)

Commissioner Hoffbeck looked at slide 40, "Conclusion," which showed another table that examined the amount of money actually available for government expenditures and providing government services. He acknowledged that the state was in the position of needing to use Permanent Fund earnings for government services, and must examine how much could be taken under each of the plans. He reviewed the potential dividends under the various plans. He reviewed the assumed budget under each plan, and highlighted Unrestricted General Fund (UGF) revenues under the plans. The revenues were a bit higher under SB 70, as there was no draw on the royalties. He addressed the ERA draws; and observed that while there was no planned draw under the status quo, there was various draws under the under plans.

Commissioner Hoffbeck continued discussing the table on slide 40. He addressed the bottom row, 'Additional Measures Required for a Full Fiscal Plan,' noting that under status quo, \$2.8 billion was needed. Under SB 21 \$1.5 billion was needed, and under both SB 26 and SB 70 there was an approximately 700 million gap to close. He found it was significant that to close the \$1.5 deficit under SB 21 it would require all of the cuts proposed by the Senate as well as all of the revenues proposed by the House. By paying the larger dividend and having a lower draw, there would be a need for substantially more pieces to achieve a solution.

Commissioner Hoffbeck looked at slide 41, "PFPA (SB 26)":

- Provides a rule-based framework for use of the fund earnings
- Stabilizes UGF revenues
- Protects the dividend
- Protects the permanent fund
- Maximizes the use of the earnings reserve

Co-Chair MacKinnon noted that there had been a similar presentation the previous week, which was available for review by the public. There had been substantial questions from the committee at the previous presentation.

Senator Dunleavy asked if the governor was able to veto a dividend under SB 26.

Commissioner Hoffbeck answered in the affirmative.

Senator Olson asked if there were any bills being considered that would preclude the governor's ability to veto the PFD.

Commissioner Hoffbeck understood that the governor would have veto authority under all the bills being considered.

[9:38:31 AM](#)

EMMA POKON, ATTORNEY, DEPARTMENT OF LAW, discussed the sectional analysis for SB 26 (copy on file):

Section 1 - Legislative Intent

Section 1 expresses legislative intent to reevaluate the use of permanent fund earnings in three years.

Section 2 - Dedicated Mineral Royalties

Section 2 amends AS 37.13.010(a) to reduce the percentage of mineral royalties directed to the principal (or corpus) of the permanent fund from about 30% of all mineral royalties received by the state (25% from pre-1980 leases and 50% from later leases) to 25% of the total.

Section 3 - Conforming Amendment

Section 3 deletes the definition of "income available for distribution" in AS 37.13.140. An amended definition of this term will appear in a new subsection, AS 37.13.140(b), created by section 4 of this bill.

Section 4 - Draw formula (the amount to appropriate from the ERA to the general fund)

Replacing the language removed in section 3, section 4 adds new subsections (b) and (c) to AS 37.13.140. These new subsections contain the new formula for determining "the amount available for distribution each year" from the earnings reserve account (ERA). This "draw formula" has two parts: (1) a percent of market value (POMV) calculation and (2) a "draw limit."

Contained in new subsection (b), the POMV calculation is 5.25% of the average value of the fund for the first 5 of the last 6 years. The 5.25% POMV is the maximum amount that would be taken from the ERA under

the plan. This amount may be reduced by the draw limit contained in new subsection (c).

New subsection (c) provides that after calculating the 5.25% POMV, the draw limit reduces that amount by one dollar for every dollar by which unrestricted (i.e., non-dedicated) production taxes and mineral royalties exceed \$1.2 billion. Basically, when oil revenues go up the draw from the permanent fund goes down.

Together, the POMV calculation and the draw limit create a draw formula that: (1) stabilizes general fund revenues; (2) avoids using permanent fund earnings when oil revenues are high; (3) allows larger withdrawals (larger than what would be sustainable under a simple POMV) when oil revenues are low; and (4) creates more opportunities for the permanent fund to grow, resulting in larger dividends and more funding available for the general fund when it is most needed.

Section 5 - Conforming Amendment

This conforming amendment updates a cross-reference to the calculation of the "amount available for distribution" or the "draw formula." The cross-reference is in AS 37.13.145(d) which exempts income from the Amerada Hess portion of the fund from the calculation of the amount available for distribution, directing it to the Alaska capital income fund instead.

Section 6 - Appropriations out of the ERA

Defining two types of appropriations out of the ERA, one to the general fund and one to the principal, section 6 adds new subsections (e) and (f) to AS 37.13.145.

To the general fund: New subsection (e) contemplates an appropriation from the ERA to the general fund of the amount determined by the draw formula in section 4. This provision specifies that the appropriation is "up to" the amount determined by the draw formula.

To the principal: New subsection (f) amends the timing and amount of transfers from the ERA to the corpus (the inflation proofing mechanism) currently in AS 37.13.145(c). The current inflation proofing mechanism in AS 37.13.145(c) contemplates an annual appropriation from the ERA to the principal of the

amount necessary to offset the effect of inflation in the prior year. AS 37.13.145(c) would be repealed by section 13 of this bill.

To replace AS 37.13.145(c), new subsection (f) instead contemplates appropriating any balance of the ERA that exceeds four times the maximum 5.25% POMV draw (after the transfer to the general fund contemplated in new subsection (e)). In other words, when the ERA reaches 21% of the total value of the fund (5.25% multiplied by four) any money in the account over that amount goes to the principal. Over time, these transfers will inflation proof the principal (grow the principal in pace with inflation). This new formula also means that the timing of inflation proofing transfers changes from a fixed annual event to a more flexible "as we can" schedule.

of protecting the permanent fund. However, depleting the ERA would create pressure to realize earnings based on general fund needs rather than on good investment policy. Thus, to ensure investment decisions remain independent of political considerations, the ERA should hold a balance sufficient to bridge several years of low or negative investment returns (and low oil revenues). This more flexible inflation proofing mechanism helps bolster the ERA balance to prepare for that possibility while keeping a mechanism for transfers to the corpus in place.

Section 7 - Appropriations from the General Fund to the Dividend Fund

Adding a new section (AS 37.13.146), section 7 effectively amends AS 37.13.145(b) (which is repealed in section 13) to change the dividend calculation. The new formula has two parts. It contemplates an appropriation from the general fund to the dividend fund of an amount equal to:

- (1) 20% of non-dedicated royalties (which is about 15% of all royalties), plus
- (2) 20% of the POMV calculation (or about 1% of the total value of the fund).

This only relates to the total amount appropriated for dividends. The rest of the formula for per person dividend check is in the dividend fund statute.

Section 8 - Conforming Amendment

Like the conforming amendment in section 5, this provision updates a cross-reference to the "amount available for distribution" or the "draw formula." The update is in AS 37.13.300(c), which exempts income from the mental health trust fund from the calculation of the amount available for distribution.

Section 9 - Conforming Amendment

This conforming amendment updates a cross-reference to the formula for the amount to appropriate to the dividend fund.

Section 10 - 2018 and 2019 Dividends

Section 10 specifies that, notwithstanding the new dividend formula, dividend checks in 2018 and 2019 will be \$1,000 per person.

Section 11 - Conforming Amendment

Section 11 updates AS 43.23.045(a), specifying that the dividend fund consists of money appropriated to it under the new section AS 37.13.146 (section 7 above).

Section 12 - Conforming Amendment

Amends AS 43.23.055 to clarify that, once funds are appropriated to the dividend fund under AS 37.13.146 (section 7 above) to pay dividends the Department of Revenue may pay dividends without another appropriation.

Section 13 - Repeals

Section 13 repeals three provisions in current statute:

1. AS 37.10.430(c), which creates a CBR subaccount and requires that the main account be invested short-term if the Department of Revenue anticipates a need for those funds within 5 years;
2. AS 37.13.145(b), which contains the current formula for appropriations to the dividend fund that would be replaced by the formula in section 7 of this bill;
3. AS 37.13.145(c), which contains the current inflation proofing formula that would be replaced by the new mechanism in section 6 of this bill.

Section 14 - Repeal

Section 14 repeals AS 42.23.025(c) on June 30, 2020. Created by section 10 (above), this provision applies

to dividends in 2018 and 2019 and will be superfluous after the October 2019 dividend distribution.

Section 15 - Immediate effective date

Co-Chair MacKinnon asked if there was a reason that there was not a severability clause in the bill.

Ms. Pokon had not previously discussed the issue.

Co-Chair MacKinnon thought that dividends were very close and personal to Alaskans and expected that someone could take the state to court after any changes of any kind were made to the dividend. She referenced past litigation.

SB 26 was HEARD and HELD in committee for further consideration.

[9:42:58 AM](#)

AT EASE

[9:46:13 AM](#)

RECONVENED

#sb21

SENATE BILL NO. 21

"An Act relating to appropriations from the income of the Alaska permanent fund; relating to the calculation of permanent fund dividends; and providing for an effective date."

[9:46:24 AM](#)

SENATOR BERT STEDMAN, SPONSOR, introduced himself and stated he would be presenting a bill he was very proud of. He asked for the committee's support. He thought the committee would observe that there had been no other bill on the topic of the Permanent Fund with the same unique aspects. He relayed that he would be giving a short presentation, after which he would invite Legislative Finance Division (LFD) staff to display some different data inputs to further illustrate the provisions of the bill. He stated that the bill had a basic structure and was a starting point. He emphasized that the bill was not an all-inclusive solution, and did not endeavor to solve the fiscal gap.

Senator Stedman thought that members could recognize that forecasts were not correct and with luck could provide direction and magnitude. He referenced the pension obligations of the state, and the recession of 2008-2009 as examples. He noted that the focus of the bill was much shorter; and was a different way of approaching the fiscal issue at hand, rather than looking at filling the deficit as quickly as possible.

Senator Stedman remarked that the state was very fortunate to have a large savings account in the Permanent Fund. He thought that it was important to take affirmative action to protect the fund for future generations. He stated that the approach of the bill considered what the Permanent Fund could reasonably do to aid in the problem of the deficit, and how to eliminate the structural deficit.

[9:50:13 AM](#)

Senator Stedman discussed the presentation, "SB 21 (2017) "'GUARD and GROW' THE ALASKA PERMANENT FUND," (copy on file). He showed slide 2:

Issue:

Structuring the Permanent Fund to Guard It from Being Raided.

Opportunity:

Build a New Fiscal Framework

- Continues the Proper Management of the Fund,
- Provides a Fair Dividend,
- Allows for Transfers Back to Principle of Fund, and
- Limits Use For Public Services.

Senator Stedman commented that the Permanent Fund was a sensitive subject; and thought the risk to the fund lie with the legislature that had the power of appropriation to destroy, hinder, protect or build the fund. He commented on the cartoon depicted on the slide, which depicted the legislature as a wolf that would devour the earnings capability and erode the purchasing power of the fund (or not). He commented on the successful track record of the Permanent Fund, and posited that the bill would leave the important pieces intact.

Senator Stedman noted that the people of the state owned the subsurface rights, unlike other states. He made a special note that there were multiple generations represented at the table. He emphasized that future Alaskans had just as much right to the Permanent Fund as people already in the state.

[9:54:15 AM](#)

Senator Stedman stated that the bill would allow fair dividends to the owners of the resource. The bill would also allow (in the case of additional income) back to the Permanent Fund for future growth, to be added back to the dividend, or used for public services. He thought everyone recognized that it was not possible to solve the fiscal problem without the help of the Permanent Fund. He thought that looking forward to increased oil production, the state would be in the position to add money back to help the Permanent Fund grow at a faster rate.

Senator Stedman discussed slide 3, "CURRENT PRINCIPLES FOR THE PERMANENT FUND":

- A "Permanent" Savings Account: The fund should conserve part of the state's revenue from resources to benefit all generations. AS 37.13.020(1)
- The Fund's Principle Should Be Protected While Prudently Invested The fund should be managed to protect the principal while maximizing total return. AS 37.13.020(2)
- The Fund's Purchasing Power Over Time Should Be Preserved While Maximizing Return AS 37.13.120(a)

Senator Steadman discussed the history of the Permanent Fund. He cautioned against discussing the concept of an "average dividend," which was contingent upon the size of the fund.

Senator Stedman showed slide 4, "CURRENT PRINCIPLES WORK - 8.66% ANNUALIZED RETURNS FOR LAST 32.5 YEARS (\$734,000 IN 1977 TO \$57,304,500,000 2/21/17)," which showed a bar graph entitled 'Fund's Long-Term Investment Performance.' He reiterated that the bill would not solve the state's entire fiscal problem. He thought the safety of the fund should come before solving the state's fiscal problem.

9:58:04 AM

Senator Stedman showed slide 5, "SB 21 (2017) PROTECTS THE PERMANENT FUND UNDER CURRENT PRINCIPLES: INVEST PRUDENTLY, PROVIDES A FAIR DIVIDEND, ALLOWS FOR REINVESTMENT, AND LIMITS THE AMOUNT FOR GOVERNMENT!":

- Sets up a 4.5% payout based on a rolling 5 year average. (Uses first 5 of the last 6 fiscal years)
- Splits the 4.5% payout and sets a minimum 2.25% allocation for dividends
- The remaining 2.25% of the payout can be allocated towards increased dividends, returned to the permanent fund for investment, or to the general fund for state services.
- Sets a maximum of 2.25% on the amount of the payout that can be used for government services.

Senator Stedman reiterated that the bill was not a holy grail of bill solutions, and was targeted to protect the Permanent Fund. He discussed the closures of pulp mills and saw mills in Sitka, Wrangell, and Ketchikan. He recounted that at the time of the closure Sitka had a fund that was all bonds. In the late 1980s he had a discussion with the administrator in city hall about converting the fund to a balanced approach of stocks and bonds with a POMV. The community had converted the fund to a POMV with a payout rate of 6 percent, and the configuration had been running for over 20 years. He drew parallels between the generations of Sitkans that had an interest in Sitka's fund and the many generations of Alaskans who deserved benefits from the Permanent Fund. He stated that the city was considering lowering the payout rate of the fund.

Senator Stedman continued discussing the fund of the city of Sitka, which had experienced a slight erosion of purchasing power over the previous two decades. He thought the bill was not dissimilar to how the community of Sitka had dealt with its fiscal impact. He stated that the bill was set with a 4.5 percent payout and had a smoothing mechanism much like the other bills of the same topic. He thought it was wrong to set the payout by considering the size of the deficit rather than what could be borne by the

fund portfolio. He hoped to engage in discussion about the 4.5 percent rate of payout and examine stress points. He considered that a 6 percent payout would erode future purchasing power over time.

[10:03:15 AM](#)

Senator von Imhof looked at slide 5, and addressed the last bullet point, which showed a maximum of 2.25 percent for the amount the payout could be used for government services. She noted that the bullet above showed there was flexibility for the 2.25 percent portion that could be used for dividends, returning to the fund, or for state services. She wondered how to reconcile the extra flexibility with the language in the bill that had a maximum payout for government services.

Senator stated that the 4.5 percent payout was split with one half for dividends (for the owners of the asset); and the state had the ability to use one half of the payout rate to help with the state's fiscal situation. He explained that if there were strong fiscal returns, the remaining 2.25 percent could be used in the ways illustrated on the slide. He argued that the best course of action would be to put the funds back to the corpus of the fund for future generations.

Senator Stedman thought that if there was less than a 50 percent split to the public, it would erode public support. He thought going above 50 percent for the dividend would be a fiscal strain. He observed that taking the entire 4.5 percent of the draw would solve the fiscal problem, but would create a political problem. If the entire payout went to dividends, the state would not be able to fix the deficit. He thought a balance was necessary, and noted that the bill was not prescriptive with regard to dispersal of the payout. He thought it was important to give policy-makers the ability to make the necessary decisions to increase the dividend or route the funds back to the Permanent Fund. He thought that the provision, in combination with a spending limit that had been discussed, was an attractive solution to help control government.

[10:06:55 AM](#)

Senator Stedman showed slide 6, "SB 21 (2017) - PROJECTED 4.5% DRAW, DIVIDEND AMOUNTS, AND OTHER FUNDS," which showed

a table. He pointed out that the dividend amount for 2018 would be roughly \$1700 (for approximately 650,000 dividends) under the proposed plan in the bill. He thought some might consider it to be an excessively large dividend; and reminded that the size of the dividend was dependent upon the size of the Permanent Fund. He thought flexibility would be needed from the public to solve the fiscal crisis. He wanted to see the payout set at 50/50, which could be adjusted up or down if the need arose. In using the two combinations, in conjunction with spending restraints and possible revenue enhancements, it was possible to eliminate the structural deficit without hindering the earnings capability of the Permanent Fund in perpetuity.

[10:09:23 AM](#)

Senator Stedman turned to slide 7, "SB 21 (2017) - SAFEGUARDS THE FUND SO IT CAN GROW AND LAST FOR GENERATIONS":

- SB 21 (2017) is not intended to fill the entire fiscal gap. It's primary focus is guarding the permanent fund so it can grow for future generations while keeping downward pressure on government spending.
- Other pieces that address the fiscal gap, like budget reductions, efficiencies, and revenue enhancements may be bolted onto the fiscal framework in the near future.

Senator Stedman reiterated that SB 21 was straightforward and simple. He commented that the bill had taken two months to draft, as earlier versions had been too complicated. He thought that the public would be in support if the changes to the Permanent Fund were transparent. He commented that the primary goal of the bill was to protect the Permanent Fund for future generations of Alaskans. He thought it was possible for the current generation to address the problems.

Senator Stedman thought the politics of the bill might beg the question as to why there was a statutory change rather than a constitutional amendment. He thought the bill would show that the POMV worked, and enshrine it in the constitution with a requirement for public support. He did not think there was sufficient time for a constitutional

amendment. He asked the committee to look at the statutory framework for a POMV, and work with the levers to payout the dividend split for two years, ending with a 50-50 split. He wanted to confine the ERA and require the legislature to deal with the issue of the deficit.

[10:13:38 AM](#)

Co-Chair Hoffman thought the people of Alaska were looking toward the legislature to come up with financial solutions to address the deficit. He stated that SB 70 accomplished the task in the out years. He thought the dilemma was how to address the deficit, while Senator Stedman was addressing how to protect the Permanent Fund and the dividend. He thought the dividend was protected by SB 70. He thought that Senator Stedman asserted there could be some form of SB 70 for ten years, during which the dividend would be static. He wondered if Senator Stedman had considered how such a change might work towards a fiscal solution.

Senator Stedman commented that the members in the Senate did not always agree. He did not necessarily agree that it was fair to the people of Alaska to use the average to conclude a dividend rate. He thought the dividend outflow should be tied to the size of the fund.

[10:16:51 AM](#)

Senator Stedman addressed Co-Chair Hoffman's question regarding freezing the dividend for ten years. He noted that there would be five different legislative groups over the period of time being discussed, with varied agendas and opinions. His thought that the problem could be fixed at a more rapid rate. He thought the focus should be on solutions for the next three to five years. He commented on the unpredictability of fiscal projections, and used the example of the state retirement system.

Co-Chair MacKinnon asked if the legislature had statutorily contributed about \$24 billion of additional funds to the Permanent Fund.

Senator Stedman was not aware of the precise amount that had been contributed, but he knew that from time to time the legislature had appropriated earnings reserves to protect the corpus of the Permanent Fund. He emphasized

that he would be shocked if the legislature let the ERA continually grow. He had seen projections in which the ERA was \$20 billion to \$30 billion.

Co-Chair MacKinnon stated that the legislature had contributed \$17 billion and inflation proofing.

Co-Chair MacKinnon asked if Senator Stedman was prepared to give an overview of the bill.

Senator Stedman stated that there was only one paragraph in the bill.

Co-Chair MacKinnon observed that the bill was three pages.

[10:19:58 AM](#)

Senator Stedman read from the Sectional Analysis (copy on file):

SECTION 1

Deletes language from AS 37.13.140 related to income available for distribution.

SECTION 2

Deletes references in AS 37.13.145(d) to AS 37.13.145(b) and (c), which are repealed by section 5.

SECTION 3

Adds a new subsection to AS 37.13.145 that authorizes the legislature use 4.5% of the average fiscal-year-end market value of the balance of the fund for the first five of the last six fiscal years, including any unrealized gains and losses. The legislature must allocate a minimum of 2.25% for dividends. The other 2.25% of the payout can be appropriated towards increased dividends, reinvested into the Permanent Fund, or to the General Fund for public services. A maximum of 2.25% can be used for public services.

SECTION 4

Makes conforming amendment to AS 43.23.025(a) to change a reference from AS 37.13.145(b) to AS 37.13.145(e)(1).

SECTION 5

Repeals AS 37.13.145(b) and AS 37.13.145(c).

SECTION 6

Provides an effective date of July 1, 2017.

Senator Stedman added that the bill was structurally so basic that implementation would necessitate additions for several items.

[10:21:53 AM](#)

AT EASE

[10:23:46 AM](#)

RECONVENED

Senator Stedman wanted to review interactive scenarios with the assistance of LFD to illustrate the dynamics of SB 21. He wanted to change variables and discuss deficit issues. He addressed the spreadsheet "LFD Fiscal Model," which was previously used in committee to discuss SB 70 [copy on file under Senate Finance meeting 2/27/17].

Co-Chair MacKinnon commented that the committee had previously modelled and tested fiscal plans through an interactive graph from LFD. When reviewing different bills and fiscal models, the committee first considered the Undesignated General Fund (UGF). She referred to Designated General Funds (DGF), and used the example of University receipts and tuition, which were designated to go back to the University. The committee would not want to hamper the University from being able to take care of itself through revenues of its own. She used the example the Department of Fish and Game's designated funds that went toward managing resources. She discussed federal funds and perceived budget growth. She relayed that the state had used limited UGF dollars to leverage as many federal dollars as possible to fight the recession.

[10:26:22 AM](#)

Co-Chair MacKinnon detailed that the previous year's capital budget had approximately \$115 million to \$117 million used to leverage approximately \$1 billion in federal funds to invest across the state to care for ports, roads, and airports. She looked at the graph on the top left of the fiscal model and pointed out that the blue represented projected revenue from FY 16 to FY 26, and the green represented anticipated draws from state savings. She

noted that the orange color on the graph denoted a CBR draw, or a Statutory Budget Reserve (SBR) draw. She specified that there was approximately \$288 million remaining in the SBR. The red on the chart represented unanticipated draws. If the ERA was depleted (where the current dividend calculation was from) the dividend would be at risk. She communicated that when the committee considered the dividend it had to consider it in balance with funding services provided to communities.

Co-Chair MacKinnon recalled that the Senate Labor and Commerce Committee had reviewed economic research that alleged one in three dollars in local spending came from the state. She observed that under SB 21, state reserves were moving in a downward pattern. She reiterated that Senator Stedman's plan was not to close the fiscal gap but rather protect the corpus of the Permanent Fund and the dividend. She noted that there were two additional graphs on the model pertaining to the Permanent Fund, and there was a table depicting payout dollars as well as fund growth. In the middle of the fiscal model there was a table of scenarios and assumptions being considered. She reviewed the assumptions considered by the provisions of SB 21.

[10:29:42 AM](#)

Senator Stedman directed attention to the graph on the upper left, "UGF Revenue/Budget," and thought it demonstrated that the state would be using the ERA, which he thought was indicative of a structural deficit. He reviewed the lower left-hand graph "Budget Reserves," and observed the diminishment of the SBR and the CBR. He argued that the Permanent Fund could produce revenues of 4.5 percent annually, which would not solve the fiscal problem. He thought additional measures were needed.

Senator Stedman changed variable assumptions on the fiscal model, including a POMV payout of 4.75 percent, and observed that with the structural deficit appeared again in 2023. He discussed different payout rates and considered the lower right-hand graph, which showed the payout for dividends. He thought there would need to be discussion with the public. He considered the fiscal model with a combination of \$300 million in reductions and tax changes; and observed the CBR extending to 2025. He thought it was

important to continually work so that the structural deficit would not re-appear in the future.

Senator Stedman emphasized that the Permanent FUND could aid in getting out of the budget deficit. He thought that if the public gave the legislature some flexibility, it could be done with minimum disruption. He thought it was possible to do more revenue enhancements, but that it would necessitate political discussion. He considered options such as flattening the dividend for four years or six years. He stressed that the Permanent Fund should not be subordinate to the budget deficit.

10:34:59 AM

Senator von Imhof referred to the rate of Permanent Fund investment return. She pointed out that there were two funds (the ERA and the corpus of the fund), which had been invested in the same manner. She thought it was arguable that if the state started taking predictable draws from the ERA, its investment mix would need to be reviewed. She observed that the CBR growth earnings were 2.89 percent, and reminded that the CBR had to be kept relatively liquid to enable access to the funds. She thought it was arguable that the ERA as well had to be kept more liquid. She thought increased liquidity would not enable the ERA to reach the proposed 6.95 percent rate of return. She asked if the sponsor could look at the fiscal model with a 6.25 percent rate of return for the Permanent Fund.

Senator Stedman thought Senator von Imhof had made a good point. He remarked at the diminishment of the CBR. He noted that the model did not take into account a constitutional amendment for a POMV, and a shutdown of the ERA. He reminded that the fiscal model was not all-encompassing, but would provide an idea of magnitude when considering some of the fiscal provisions being proposed. He added that the bill would not require a structural change to the permanent fund, but would try to keep the legislature out of the ERA so that the Permanent Fund would not have to diminish its risk tolerances.

10:37:40 AM

Senator von Imhof observed that with the change to the fiscal model, it was possible to see the CBR maintain its

value over time, even when the Permanent Fund returns were slightly less.

Senator Micciche asked if the model was flat.

ALEXEI PAINTER, ANALYST, LEGISLATIVE FINANCE DIVISION, explained that the model currently showed a flat budget, but could be changed to show other scenarios.

Senator Micciche commented that all the changes made to the fiscal model moved the bill closer to SB 70 and SB 26. He discussed modelling various assumptions for SB 70, and the effect on the state reserves. He thought all the proposed plans ensured the health of the corpus of the Permanent Fund. He pointed out that some plans preserved savings in perpetuity. He considered that SB 70 (as opposed to SB 21) allowed response time if there was a dramatic increase or decrease in the price of oil in accordance with the fall revenue forecast. He was uncomfortable with the amount of reserves, and thought that SB 21 did not have a structural comprehensive solution that provided a level of comfort; and thought the state would quickly need to look at either dramatic cuts or new revenue measures. He wondered how the sponsor felt about the health of the state's reserves.

[10:42:19 AM](#)

Senator Stedman strongly disagreed with Senator Micciche, and thought the other plans put too much reliance and pressure on the Permanent Fund. He noted that SB 70 would take \$4.9 billion from the ERA. He discussed other bills and provisions to take funds from the ERA. He thought it was unsustainable to rely overmuch on the portfolio. He thought the Permanent Fund should be isolated before the legislature dealt with other fiscal issues. He was concerned that the easiest of all the legislative options would be to loot the Permanent Fund. He thought there was a management problem when 9 percent of the fund was taken out in one year. He agreed that SB 21 left more work to do in the future. He was adamantly opposed to taking out billions from the Permanent Fund just because the legislature could not make hard decisions as a group.

Senator Micciche pointed out that experts from the Permanent Fund had testified in committee to ensure that the payout of 5.25 percent did not compromise the corpus or health of the fund. He agreed that it was not acceptable to

risk the corpus of the fund, but thought that experts had concurred that an effective draw rate of 4.56 percent draw rate the following year was extremely unlikely to find a failure rate over time. He thought Senator Stedman might be more conservative in his analysis.

Senator Stedman commented that the current year's dividend in combination with draws from the ERA was significant. He informed that the 4.5 percent in the bill was coincidentally at the same rate that Callan and Associates had considered a reasonable draw rate. He urged members to look at the numbers and consider what was sustainable for the Permanent Fund. He thought there was a better solution that included action to isolate the Permanent Fund. He stated that he would support SB 21 as a draft for the committee to consider changes.

SB 21 was HEARD and HELD in committee for further consideration.

Co-Chair MacKinnon discussed the agenda for later in the day.

#

ADJOURNMENT

10:47:41 AM

The meeting was adjourned at 10:47 a.m.