

SENATE FINANCE COMMITTEE
March 8, 2017
9:04 a.m.

[9:04:29 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:04 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

Rob Carpenter, Fiscal Analyst, Legislative Finance Division; Alexei Painter, Fiscal Analyst, Legislative Finance Division; Senator Bert Stedman.

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 HEARD and HELD in committee for further consideration.

#sb21
#sb26
#sb70

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."

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

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."

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

SENATE BILL NO. 70

"An Act relating to an appropriation limit; relating to the budget responsibilities of the governor; relating to the Alaska permanent fund, the earnings of the Alaska permanent fund, and the earnings reserve account; relating to the mental health trust fund; relating to deposits into the dividend fund; relating to the calculation and payment of permanent fund dividends; and providing for an effective date."

SB 70 was HEARD and HELD in committee for further consideration.

[9:05:43 AM](#)

ROB CARPENTER, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, (LFD) introduced himself.

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

9:05:51 AM

Mr. Carpenter discussed the document titled, "Model Output Comparison by Bill" (copy on file). He pointed out to the committee that the document laid out the status quo, SB 21, SB 26, and SB 70 scenarios. He that the Office of Budget and Management 10-year plan had been added into the assumptions on the page. He reminded the committee that the slide was only one picture, with different assumptions than in previous model runs. He stated that the only bill that contained an FY 17 percentage of market value (POMV) draw was SB 26, because of the immediate effective date. He stated that SB 70 had an effective date of July 1, 2018, and the division had not assumed an FY 17 draw for the model. He relayed that the Alaska Permanent Fund Corporation's (APFC) realized gains of 90 percent had been used in the model because it provided a more realistic scenario for the status quo; more returns would be realized to pay for government.

9:07:47 AM

Mr. Carpenter noted that the unrestricted general fund revenue (UGF), UGF budget, and the fiscal deficit before POMV remained identical for all scenarios, with \$1.6 billion if revenue in FY16. He noted that the model gave numbers for FY 18 and FY 26, with SB 26 and SB 70 reflecting a reduction in royalty revenue going to the permanent fund and an additional \$50 million to \$70 million deposited into the general fund. He stated that the UGF budget assumed \$4.3 billion in FY 18, and \$4.9 billion in FY 26, as related to the OMB 10-year plan growth expectations. He furthered that this would provide a fiscal deficit in FY 18 of \$2.7 billion and \$2.9 billion in the out years, and was slightly different in SB 26 and SB 70, due to the royalty change to the general fund. He continued that lines 7 thorough 9 compared the POMV and the split between dividends and government. He relayed that SB 21 offered 4.5 percent with a 50/50 split with 2.25 percent being the minimum going to the permanent fund dividend. He stated that SB 26 offered an 80/20 split with the caveat

that an additional 20 percent from UGF royalties went to the permanent fund dividend. He related that SB 70 was currently 75/25 split between the government and the dividend, respectively.

[9:10:04 AM](#)

Mr. Painter noted that in FY 18, both SB 26 and SB 70 had minimum dollar amount dividends of \$1000; while the formula showed a 75/25 percent split, the dividend would be \$1000 - higher than 25 percent.

[9:10:35 AM](#)

Mr. Carpenter relayed that the only change between SB 26 and SB 70 regarding POMV was the decrease to 5 percent; the state would see 3 years a 5.25 percent and then drop wo 5 percent in the out years. Lines 11 through 13 offered the dividend dollar appropriation amount, which was \$1.5 billion in FY 18, and \$1.9 billion by FY 26, under the status quo. Under SB 21 the dividend appropriation would be \$1.082 billion in FY 18, rising to \$1.4 billion in FY 26. Under both SB 26 and SB 70, there would be \$700 million and \$800 million appropriated, respectively. He noted that the next line showed the amount going to government (line 12). He shared that under the status quo nothing would go to government in FY 18, but the assumption had been made that the deficit from the ERA would need to be filled in FY 26, totaling \$2.7 billion. He said that SB 21 would assume a 50/50 split because of the need for money to pay for government.

Mr. Carpenter continued to discuss the model output comparison by bill using the following notes/assumptions: OMB 10-year plan for operating budget; FY 17 POMV draw for SB 26 only (other bills effective July 1, 2017); APFC's 90 percent realized gains.

[9:14:52 AM](#)

AT EASE

[9:22:39 AM](#)

RECONVENED

[9:22:47 AM](#)

Senator Dunleavy queried the assumptions embedded in the model. He assumed that the model was based on the OMB 10-

year revenue forecast, and wondered whether there were assumed reductions reflected in the model.

Mr. Painter replied that the assumption was based on the DOR Fall 2018 Revenue Forecast, with adjustments. He stated that the first adjustment was the higher percentage of royalties going to the general fund under SB 26 and SB 70. He said that the second assumption was in the budget baseline that reflected the statutory minimum of tax credits being paid out each year, one impact of which would be that more of them would be used against tax liability. He said that the budget that the division was assuming used OMB's 10-year plan for the operating budget, which had small reductions over the next 3 years, and then grew with inflation at 2.5 percent. He furthered that OMB's 10-year plan assumed that the state would begin bonding for the capital budget, which was complicated, so the division had assumed a flat capital budget of \$180 million per year beginning in FY 19.

[9:24:31 AM](#)

Senator Dunleavy understood that the numbers were for modeling purposes only, and that the senate had not adopted the OMB 10-year projections.

Co-Chair MacKinnon replied in the affirmative, and explained that the division was attempting to provide an apples to apples comparison of the three bills before the committee and the status quo.

[9:24:52 AM](#)

Mr. Carpenter explained that one of the reasons that the division used the OMB 10-year plan was that the last time they presented model output there had been feedback that growth should be built in. He said that a flat budget had been assumed under the scenarios because of natural inflationary pressures. He noted that there was pressure for a decreasing budget. He stressed that the model was no more realistic than any other projections, but was another point of view.

[9:25:44 AM](#)

Senator Dunleavy assumed that the methodology the division used for the overall permanent fund calculation was different from what the corporation itself used.

Mr. Painter replied that for this model the methodology was nearly identical. He added that more conservative numbers for realized earnings had been used in other modeling, but this version was very similar.

[9:26:27 AM](#)

Senator Micciche wondered why 2.5 percent had been used instead of 2.25 percent.

Mr. Painter replied that OMB had used 2.5 percent. He noted that the Governor's budget assumed the adoption of a motor fuel tax increase, and the division model did not because the bill was not currently in committee.

[9:27:32 AM](#)

Senator Micciche understood that the comparisons were all apples to apples except for the POMV draw for SB 26.

Mr. Painter agreed.

[9:27:58 AM](#)

Senator Dunleavy queried the projected deficit in FY 26, under each scenario.

Mr. Carpenter directed committee attention to Line 5 of the model output comparison. The line reflected the fiscal deficit before POMV under each scenario.

[9:29:47 AM](#)

AT EASE

[9:31:49 AM](#)

RECONVENED

[9:31:57 AM](#)

Mr. Painter looked at Line 21, which offered figures for the CBR balance at the end of the year under each scenario. He noted that the CBR would be gone by FY 26 under the status quo and SB 21. SB 26 and SB 70 differed, SB 26 offering the higher balances in FY 18 and FY 26. He

continued to the ERA end of the year balance, which offered similarities between SB 26 and SB 70; however, SB 26 provided the higher balances.

9:37:43 AM

AT EASE

9:41:54 AM

RECONVENED

9:42:14 AM

Mr. Painter looked at Line 26, which reflected the principal of the permanent fund. Under the status quo there was inflation proofing that was tied to the actual inflation value going from the ERA to the principal, in addition to 30 percent royalties. He said that the principal would grow from \$46.5 billion to \$60 billion under the status quo. He stated that SB 21 did not have inflation proofing built in going from the ERA to the principal, so the only visible growth was in unrealized gains and the growth in royalties. He relayed that under SB 26 and SB 70, the inflation proofing mechanism would be the 4X draw.

Co-Chair MacKinnon encouraged the members to provide amendments to the legislation.

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

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

SB 70 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

9:44:27 AM

The meeting was adjourned at 9:44 a.m.