

**ALASKA STATE LEGISLATURE**  
**SENATE STATE AFFAIRS STANDING COMMITTEE**

February 2, 2017

3:31 p.m.

**MEMBERS PRESENT**

Senator Mike Dunleavy, Chair  
Senator David Wilson  
Senator Cathy Giessel  
Senator John Coghill  
Senator Dennis Egan

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

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."

- HEARD & HELD

PRESENTATION: Dr. Ralph Townsend, Institute of Social and Economic Research, Answering Questions on Alaska's Economy

- HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 21

SHORT TITLE: PERMANENT FUND: INCOME; POMV; DIVIDENDS

SPONSOR(S): SENATOR(S) STEDMAN

01/18/17	(S)	READ THE FIRST TIME - REFERRALS
01/18/17	(S)	STA, FIN
02/02/17	(S)	STA AT 3:30 PM BUTROVICH 205

**WITNESS REGISTER**

SENATOR BERT STEDMAN, Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Sponsor of SB 21.

ANGELA RODELL, CEO  
Alaska Permanent Fund Corporation  
Juneau, Alaska

**POSITION STATEMENT:** Explained the status of the permanent fund.

DR. RALPH TOWNSEND, Director and Professor of Economics  
Institute of Social and Economic Research (ISER)  
University of Alaska-Anchorage  
Anchorage, Alaska

**POSITION STATEMENT:** Addressed Alaska's economic issues.

### **ACTION NARRATIVE**

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**CHAIR MIKE DUNLEAVY** called the Senate State Affairs Standing Committee meeting to order at 3:31 p.m. Present at the call to order were Senators Wilson, Giessel, Coghill, Egan, and Chair Dunleavy.

### **SB 21-PERMANENT FUND: INCOME; POMV; DIVIDENDS**

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CHAIR DUNLEAVY announced the consideration of SB 21.

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SENATOR BERT STEDMAN, Alaska State Legislature, Juneau, Alaska, set forth that SB 21 is very straight forward and simple. He said the bill's goal is to protect the permanent fund. He explained that the state has struggled the last two or three years through a budget deficit without the fortune of increasing oil production and or prices. He said Alaska has slipped into a state with massive hemorrhaging of its savings. He noted that the Legislature put away \$16 billion outside of the permanent fund, but the savings accounts have been depleted to \$3.6 billion. He opined that \$3.6 billion may sound like a lot, but a \$2.8 billion deficit makes the amount very small.

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He said over the last couple of years the Legislature has talked about how to fix the deficit through budget reductions or tax increases, but the "clock has ticked" and "Alaska's cash is burned." He set forth that the state has the fortunate opportunity to be backstopped by the permanent fund that

Alaskans have set away for generations, approximately \$56 billion. He added that the state is also fortunate to be the owners of the largest conventional-hydrocarbon basin in North America, which has been very profitable for Alaska. He pointed out that his generation has lived through a huge wealth boon and asserted that one of the most important things his generation can do in public service is protect the state's wealth that was created for future generations.

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SENATOR STEDMAN opined that a reoccurring structural deficit will bankrupt the state. He set forth that the intent is to get out of the structural deficit and move to more profitable times. He pointed out that not only does the Legislature need to make sure the permanent fund is protected, but to also have a framework to bolt other solutions to; example, spending reductions, taxes, or improvements to the state's oil basin.

He voiced his concern that the Legislature can more easily be backed into the permanent fund's earnings reserve account (ERA). He emphasized that the permanent fund is protected by the constitution, but the fund's trading profits and dividends are not. He noted that the Legislature has appropriated over time about \$7 billion to the permanent fund's corpus, but ensuring that the state has a long-term asset for future generations requires the permanent fund to be protected from the Legislature. He remarked that the Alaska's legislators are collectively the appropriators, good or bad the "buck stops" at the Legislature.

He explained that he put forward a framework that he thought was worthy of the Senate's consideration and hopefully beyond. He said he offered his framework as a starting point and points of discussion to bolt onto. He asserted that the permanent fund's current structure has been a good structure that has been very productive for the people, but a hard look must be taken to make the fund more protective because only the corpus is protected by the constitution whereas the ERA and the rest of it is not.

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CHAIR DUNLEAVY pointed out that Senator Stedman emphasized how to protect the permanent fund and opined that he was really talking about the ERA.

SENATOR STEDMAN answered correct and specified that he was talking about the entire \$56 billion, roughly the value of the permanent fund. He pointed out that the Legislature can

currently access approximately \$9 billion without "trading profits," in addition to held assets that can be sold for even more spending. He voiced his concern that the Legislature ends up cannibalizing the permanent fund to work through the state's current situation. He agreed with Chair Dunleavy that the permanent fund's corpus is protected, but the ERA is not.

He stated that SB 21 would protect the ERA and limit appropriations to guard the permanent fund from being raided. He provided an overview of SB 21 as follows:

- Builds a new fiscal framework that provides a fair dividend.
- Continues the proper management of the permanent fund.
- Limits use for public service.

He revealed that based on financial markets' history over the past 100 years, pulling 4 percent to 5.5 percent out of the permanent fund will also allow savings to last. He opined that higher withdrawals will erode the permanent funds' savings over time.

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He specified that SB 21 will access the permanent fund as follows:

- Withdraw 4.5 percent of the market value so that the fund's value does not erode for future generations.
- The permanent fund will grow most likely in perpetuity by inflation proofing itself because the asset returns will exceed the rate of inflation and withdrawal, on average.

He pointed out that over the past 30 years there have been 10 economic shocks in the financial markets and the state will have economic shocks in the future; however, limiting the permanent fund's withdrawal might not exceed its rate of return in the long run. He added that limiting the withdrawal will protect the fund from the legislative "wolves" from getting to it.

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He admitted that the Legislature cannot fix the state's financial situation without the help of the permanent fund. He asserted that the operating budget cannot be reduced enough, and the state cannot tax enough. He said if the state is forced into using the permanent fund, how to protect the permanent fund and

be fair with Alaskans on the permanent fund dividend (PFD) must be addressed.

SENATOR STEDMAN detailed how SB 21 addresses the 4.5 percent withdrawal from the permanent fund as follows:

- Half or 2.25 percent of the "citizens' money" goes to the PFD.
- Half or 2.25 percent goes towards "core services" in the operating budget.
- Legislature's 2.25 percent can either be added to the PFD or returned to the permanent fund during strong economic years.
- Market returns will be based on a five-year average over a six-year period for budgeting purposes and to smooth out fluctuation "ripples" from the financial markets.
- Addressing how the Legislature appropriates its 2.25 percent on an annual basis would not be a spending cap, but does exert downward pressure on the "appropriating body."

He noted his concern that the Legislature will get itself into a situation over the next couple of years where billions from the ERA are appropriated that cannot be replaced.

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He addressed page 3, "Current Principles for the Permanent Fund" and emphasized that SB 21 does not change how the permanent fund is currently managed.

He addressed page 4, "Current Principles Work - 8.66 Percent Annualized Returns for Last 32.5 Years (\$734,000 in 1977 to \$56.3 billion Last Week)." He said the permanent fund returns over time vary due to economic conditions and portfolio allocations. He noted that Ms. Angela Rodell, CEO of the Alaska Permanent Fund, was in attendance and could address the intricacies of the permanent fund as well as her comfort level with the 4.5 percent withdrawal.

He addressed page 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." He specified that SB 21 closes the door on government spending and would not allow the Legislature to appropriate over 4.5 percent out of the permanent fund. He specified that the Legislature would have to take spending seriously during a financial downturn because the ERA will not

be available to draw upon. He pointed out that the Legislature can build upon the constitutional budget reserve (CBR) or other savings accounts outside of the permanent fund if the Legislature so chooses; however, the permanent fund would be taken out of the discussion as an absolute fallback of unlimited proportions that forces the Legislature to act rather than not responding to deficits and swinging economic conditions.

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SENATOR STEDMAN revealed that Sitka switched their "little permanent fund" in the 1990s from all bonds to a percent-of-market-value approach with an annual payout of 6 percent to their general fund. He noted that he assisted Sitka with their fund restructuring. He said a 6 percent withdrawal has shown to be too high where Sitka has seen a slow erosion of purchasing power over the last 20-plus years. He asserted that there is no magic with a 4.5-percent withdrawal, but 6 percent is too high, and 2 percent is too low to fix the problems that the state faces in addition to dividend amounts coming down substantially as well. He set forth that he is trying to put on the table a framework that facilitates discussions with the Alaska Permanent Fund Corporation, legislative finance committees, and all the experts to work collectively.

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He addressed page 6, "SB 21 (2017) - Projected 4.5 Percent Draw, Dividend Amounts, and Other Funds" and asserted that his intent with SB 21 was not driven by how much the PFD should be, but by what structure should the state have to protect the permanent fund. He said with the structure in place, the structure is split 50/50 and the PFD is determined for the public. He projected that the PFD from SB 21 would be in the range of \$1,700 in 2018 and total \$1.89 billion. He admitted that the state's situation is so grave that the PFD strategy will have to be phased in, but the Legislature's ability to access 4.5 percent would be blocked. He said the public gets a fair dividend, a fair split, and a fair shake for the assets they own, and the legislature oversees. He set forth that the wealth created over the last several decades continues for future generations.

He addressed page 7, "SB 21 (2017) - Safeguards the Fund So It Can Grow and Last for Generations." He reiterated that SB 21 helps close the fiscal gap and provides a framework to bolt-on other tools as the Legislature sees fit, which will have to be added. He asserted that SB 21 helps keep downward pressure on government spending and noted that one of the tools is the

spending cap that Chair Dunleavy has worked on as well as others that will be coming out. He said budget reduction discussions are underway in addition to revenue enhancements, but the Legislature needs a framework. He asserted that the Legislature needs to have public support if the wealth coming off the permanent fund is structured to be protected and shared with the public. He said the public would share with the general fund where objectives and obligations for education, public safety, and the Department of Natural Resources are met. He opined that without support the public will demand changes and that is why the Legislature needs to set stability and predictability.

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SENATOR STEDMAN summarized that he is one of the "wolves" in the Legislature and there are 60 in total. He said Alaska's legislators have good intentions, but collectively the Legislature is very dangerous when there is a pot of money in front of it, especially with the biggest stack of billions relative to the amount of people in the state. He remarked that other states cannot even imagine Alaska's wealth. He set forth that he just wants to make sure that the generation fortunate enough on the timeline of life to be in Alaska during the wealth-bubble deals with the deficit to pass the wealth forward to the next generation of Alaskans.

CHAIR DUNLEAVY opined that some legislators see themselves as "wolf hunters" who go after the "wolves" to protect the permanent fund. He remarked that Senator Stedman's focus seems to be on protecting the fund and noted his argument that the ERA is a portal to the permanent fund where withdrawing too much reduces the permanent fund. He asked why Senator Stedman did not propose a constitutional amendment rather than a bill that can be changed by future legislators.

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SENATOR STEDMAN agreed with Chair Dunleavy and explained that his decision was based on the public supporting the bill. He said he thought starting with a statutory change would be better, even though the next legislature can change it.

CHAIR DUNLEAVY asked how a statutory change protects the permanent fund.

SENATOR STEDMAN replied that if the public supports the concept, which he thinks they will when they realize how defensive the bill is for permanent fund and how the bill does not change the permanent fund's structure. He specified that the bill does not

put the permanent fund at risk of being raided and closes the door and "welds it shut." He opined that the public is going to be very receptive to a constitutional amendment and he would personally like to see one.

CHAIR DUNLEAVY asked to confirm that Senator Stedman would support a constitutional amendment for his permanent fund concept.

SENATOR STEDMAN answered yes.

CHAIR DUNLEAVY pointed out that the state has a statute for decades that calculated a PFD payout which was vetoed this past year.

SENATOR STEDMAN answered correct.

CHAIR DUNLEAVY opined that if the permanent fund protection is not constitutionalized, the "wolves" in one form or another can "monkey" with it. He asked why Senator Stedman did not initially advocate for his legislation to be a constitutional amendment.

SENATOR STEDMAN replied that Chair Dunleavy made a good point. He stated that his legislation is a point of timing where he would like to see the public support whatever framework the Legislature puts forward. He opined that SB 21 is a cornerstone that is straightforward like an endowment portfolio with no "smoke and mirrors." He said he thinks the public will support and want a constitutional amendment to keep the "wolves" out because the next several years are going to be tough years in the Legislature for appropriating enough funds for the state to make its payroll. He remarked that he would like to see input from the Alaska Permanent Fund Corporation and the Alaska Department of Revenue.

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CHAIR DUNLEAVY noted that Senator Stedman said, "It's the people's money" when referring to the PFD. He asked Senator Stedman if he supported SB 1 and SB 2. He specified that SB 1 and SB 2 would return the vetoed portion of the PFD to the people of Alaska. He said he wanted to be sure that he understood what Senator Stedman is saying that he believes it is the "people's money."

SENATOR STEDMAN replied as follows:

There's no doubt, not only is it the people's money, but it's the people's oil, it's the people's gas, the "people's fish, bear, and deer. We are a state unlike all other states that is owned in commons. We are not Texas, we don't have the "Ewing's Ranch" on top of an oil well, we collectively own it.

CHAIR DUNLEAVY remarked that he looked forward to Senator Stedman's support on SB 1 and SB 2.

SENATOR GIESSEL noted that another proposal from the previous year took a higher percentage from the ERA. She asked how the lower percentage change in SB 21 effects how the permanent fund is managed.

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SENATOR STEDMAN replied that Angela Rodell from the Alaska Permanent Fund Corporation would be more adept at addressing Senator Giessel's question.

SENATOR EGAN pointed out that the state would currently be in a more difficult financial situation if it were not for the Senate Finance Committee that Senator Stedman chaired when \$12 billion was into the CBR. He thanked Senator Stedman.

SENATOR STEDMAN replied as follows:

It's all about timing, trying to get public support. I wish in retrospect we would have taken some of those massive savings and put them in the permanent fund. None of us expected to have this big of an economic downdraft. We knew downdrafts come, but this has been a doozy for the state, so it caught a lot of us by surprise, I think.

[4:10:26 PM](#)

ANGELA RODELL, CEO, Alaska Permanent Fund Corporation, Juneau, Alaska, addressed Senator Giessel's previous question as follows:

The management of the fund under the proposed legislation probably would not change. What is going to drive changes to the management of the ERA as a result of any legislation that might come forward is going to be the liquidity demands and how quickly we see that ERA getting drawn down and the expectation. I think one of the things that is helpful in all of the

pieces of legislation including the senators is that there is this "lag," so we are walking into a fixed-dollar amount into the budgetary season and there is not an expectation of expected earnings or an unknown amount that may crop up in any of them. So the more certainty we can have on the expected draws and what those draws will be because due to the lags and the percentages, the better able we will be able to manage. Now, the higher the percentage draws, the more we will have to look at the risk profile of the ERA to make sure we have that higher dollar amount available that you're expecting to be available for budgets.

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SENATOR COGHILL asked to confirm Senator Stedman's statement that the valuation process would be straight forward. He said he knows the Permanent Fund Corporation's asset allocation is dynamic and inquired if a "continuous valuation" would say that the 4.5 percent withdrawal would come from a certain asset percentage.

MS. RODELL replied that SB 21's evaluation is straight forward and complies with all the issues that the Permanent Fund Corporation has. She noted that the Alaska Constitution is written that the income is what is available for spending. She said SB 21 continues to recognize the challenges the Permanent Fund Corporation has between generally accepted accounting principles and what can be made available for spending balances. She summarized that SB 21 is a very straight forward calculation for the Permanent Fund Corporation.

SENATOR GIESSEL noted that Senator Stedman projected that \$1.1 billion would be made available by SB 21. She asked how much would have been made available by SB 128 [29th Legislature].

MS. RODELL replied that she does not remember.

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CHAIR DUNLEAVY held SB 21 in committee.

[4:14:03 PM](#)

At ease.

**PRESENTATION: Dr. Ralph Townsend - Institute of Social and Economic Research, Answering Questions on Alaska's Economy.**

[4:15:05 PM](#)

CHAIR DUNLEAVY announced that the next order of business is a presentation by Dr. Townsend with ISER to address various revenue measures, cuts, impact to the PFD, and behaviors associated with some of the proposed actions.

[4:16:33 PM](#)

At ease.

[4:16:42 PM](#)

CHAIR DUNLEAVY called the committee back to order.

[4:16:46 PM](#)

DR. RALPH TOWNSEND, Director and Professor of Economics, Institute of Social and Economic Research (ISER), University of Alaska-Anchorage, Anchorage, Alaska, noted that his staff provided input from his previous presentation that also followed up on Senator Stedman's point regarding Alaska's current fiscal challenges. He set forth that a good first step is to say that the Legislature is helping the people manage four-major assets:

1. Oil and gas resources;
2. Financial assets (Permanent Fund, ERA, CBR);
3. Physical infrastructure;
4. Human capital.

He pointed out that the "physical infrastructure" that the state has invested in heavily is a very substantial investment. He opined that "human capital" is sometimes left off and vitally important to the future of the state. He detailed that the state makes investments in its people in the form of education and the state also makes investments in institutions; for example, the state creates court systems and finds the resources to define a court system where having to invent a court system from scratch would be difficult to equal the current system's functionality.

He said the oil and gas reserves were a very large asset and dwarfed the state's financial assets; the strategy for that period was straight forward where resources were taken from the oil and gas reserves and placed into the financial assets, physical infrastructure, and continuous investment into human capital that included education and health care. He pointed out that the straight-forward strategy was not a difficult decision process because moving assets from oil and gas reserves into the other ones was obvious where both the financial assets and the physical infrastructure were used to balance out the economic ups-and-downs.

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DR. TOWNSEND set forth that the state has missed the significant shift in the relative importance of oil and gas reserves over time. He asserted that oil and gas reserves resources are much less valuable in the present-value sense than the permanent fund and its associated reserves. He pointed out that the state has invested substantially in physical infrastructure and those assets have increased so that today the financial and physical infrastructure are a much bigger part of the management issue. He remarked that the change was highlighted in 2015 and in fact has been a long time coming. He said the slow decline in the oil production was masked to some extent by the high-oil price. He commended the Legislature and the people of Alaska for making the decision to invest in both the fiscal infrastructure and permanent fund rather than spending.

He said the issue going ahead is exactly the kinds of issues related to SB 21 as to how does the state manages its financial assets and how do the assets interact with the cyclical oil and gas revenues as well as the state's decisions with respect to fiscal infrastructure and human capital. He summarized as follows:

2015 wasn't this dramatic turning point, it unfortunately highlighted a long-term trend and despite the fact of having the budget reserve with enough funds to handle three or four years, the truth was that the world was changing to a greater extent than we had realized and planned for. The challenge for us is managing these assets together going ahead rather than worrying about managing any one of them or the simple question of closing this year's budget gap.

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SENATOR WILSON noted that Dr. Townsend had previously talked about how the state won't be able to support its infrastructure if the state continues its capital budget at current levels. He asked what number or budget percentage is needed to sustain the state's capital infrastructure.

DR. TOWNSEND replied that his background is not sufficient to provide a specific number. He pointed out that the state was putting in \$100 million to match the federal match and that would not keep up with the state's large infrastructure. He opined that it's likely the state will want to consider funding its infrastructure much the same way as the other 49 states by relying on their favorable access to capital by bonding longer-

term infrastructure projects. He noted that interest on accessing capital is tax deductible and states have access to capital at a lower interest rate than the private sector does. He summarized that most states support their highway and building construction not entirely from their operating budget, which is the way Alaska has done it for a long time.

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CHAIR DUNLEAVY asked if he has looked at Alaska's indebtedness.

DR. TOWNSEND answered no.

CHAIR DUNLEAVY suggested that Dr. Townsend look at Alaska's indebtedness because that may help with what the state can or cannot do regarding the idea of bonding. He opined that there is a belief that "We can keep the party going as was, all we have to do is just ante up," whereas some people question whether the state can keep the party going even if we "ante up." He asked that Dr. Townsend address the behaviors that will occur due to "anteing up" from income taxes, sales taxes, property taxes, and reductions. He said some decisions must be made soon and the Legislature wants the best possible advice, data, and research.

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DR. TOWNSEND remarked that Chair Dunleavy's inquiry is a very broad question. He said decisions on leaving the state or investing in the state are long-term decisions. He opined that people are not looking at this year's budget, but are looking at their situation over the next 5 to 10 years. He set forth that an important piece is providing people with the ability to plan for their futures with an outline of where the state is going for both businesses and private individuals. He said the high-level issue of identifying how the state is going to solve various aspects of a complicated problem is important in helping people make better decisions.

DR. TOWNSEND said predicting short-run impacts from taxes, changes to the PFD, and various kinds of cuts to government is not too difficult. He asserted that the short-run impact from taxes is going to be very similar whether it is an income tax, sales tax, or increases in the property tax; however, a \$100 million reduction to the PFD is a little worse. He explained that sales and income taxes by their nature are not evenly distributed, people with more money pay more sales taxes and people with more income pay more income taxes. He said the PFD is evenly distributed and more of it goes to people who are at the lowest end of income.

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CHAIR DUNLEAVY asked how Dr. Townsend defines "short term" in terms of duration.

DR. TOWNSEND explained that economists refer to the "short run" as a term of art. He specified that the "short run" is when the obvious impacts are being played out; for example, cutting the PFD has an immediate impact whereas the direct impacts from cutting the capital budget are felt over a period of five or more years rather than within the first year. The "long run" is the period in which people have made all their adjustments. He summarized that "short run" is typically a year or two and the "long run" takes five or more years for changes to work through the economy.

SENATOR EGAN addressed tax options and asked which tax is better or worse for a family of four with two adults and two children.

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DR. TOWNSEND said there's been a great deal of research done over tax regressivity and progressivity. He said the PFD makes Alaska different where the same dollar amount is distributed to everyone, so a cut to the PFD has a more negative and regressive impact on lower-income people. He asserted that a sales tax by its nature is somewhat more regressive than a flat-income tax, but an income tax can be made progressive by focusing on upper-income individuals. He said people with fixed incomes tend to be adversely affected by property taxes; however, many jurisdictions address that feature with various kinds of "circuit breakers."

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SENATOR GIESSEL pointed out that Dr. Townsend previously made a statement about the importance of making changes over time to allow people to plan for adjustments. She noted that the Legislature is dealing with a significant issue regarding the tax-credit program the state of Alaska has for the oil and gas industry. She explained that the companies that were promised tax credits are new entrants into Alaska and compared them to a lower-income family without the assets to start their work and Alaska offered to "back fill" the businesses; however, the governor vetoed the tax credits and suddenly their loans are coming due and the businesses cannot pay the interest. She remarked that the tax-credits veto is analogous to the government suddenly imposing a tax that is causing a credibility gap for the state. She opined that government inserted itself

into what was otherwise a free market and distorted the market by promising the tax credits and then suddenly pulled out. She set forth that a promise was made, and the state has not paid its promise. She asked that Dr. Townsend address the state's tax credit program.

[4:42:54 PM](#)

DR. TOWNSEND explained that Alaska's oil-tax-credit system is complicated with 15 to 20 different programs and sub-pieces that applies to latitudinal locations. He detailed that the tax-credit program interacts with the system of how the state collects its benefits from the oil reserves. He set forth that resolving the question about oil and gas credits is an important piece of moving forward from a fiscal point of view. He opined that the tax-credit program is inherently complex and hard to understand for many people to make decisions. He set forth that the two-immediate issues are: the state created expectations in terms of being a partner, and the credits became cashable. He detailed as follows:

Having people feel that your expectations that you created can be met is important, so it's part of that resolution; but, the last piece of course is that the oil and gas credits when they became cashable moved from being what we think of as traditional credit, that is they reduce our tax revenues, they moved over to the expenditure side of the budget and that has created some real problems for the current fiscal situation because the size of those are very large at present relative to the revenue that is coming in from the oil industry. I think all of those, it's a knotty problem, but it strikes me that in terms of moving ahead and managing our future assets that is one of the issues that absolutely needs to be resolved because leaving it unresolved both leaves the operators in uncertainty, but also means year-after-year it's back.

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SENATOR COGHILL asked if ISER has analyzed Alaska's regional economies.

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DR. TOWNSEND replied that local government employment has not been very directly impacted through 2015 and 2016, but changes seem inevitable as the economy declines on the local governments. He said ISER is putting more analysis into local

economies, but getting data on smaller communities is difficult. He pointed out that the permanent fund does generate data about residents and non-residents. He said Fairbanks' economy may do better from increased military spending; however, areas that depend on government employment, the PFD, and subsistence will be disproportionately effected when compared to the urban centers with diversified economies. He stated that ISER will be trying to quantify the magnitude of the changes that local economies will see.

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SENATOR COGHILL explained that the Legislature looks at subsidies for a lot of different things; for example, power-cost equalization. He opined that knowing the most productive parts of the state's economy in relation to subsidies would be beneficial when addressing a broad-based tax regarding who bears the weight. He set forth that one size does not fit all very well. He remarked that the state's geography has a big impact on what the Legislature does.

DR. TOWNSEND replied that data is available to distinguish how the recession has played out and will continue to play out in rural areas.

[4:55:43 PM](#)

SENATOR COGHILL commented that he was expressing his frustration in implementing something that is broad based.

CHAIR DUNLEAVY asked to confirm that reducing the PFD by \$700 million impacted both those with the lowest incomes as well as a larger percentage that spends their money in Alaska.

DR. TOWNSEND replied that he agreed to an extent. He pointed out that stores in Alaska primarily bring in resources from outside of the state. He said the question is whether people are spending their PFD on things that are processed within the state.

SENATOR COGHILL pointed out that one of the biggest impacts to the reduction in the PFD are families that carry an economic load just outside of the poverty level.

[4:58:33 PM](#)

DR. TOWNSEND opined that programs with income-based qualification is much less the case than 30 or 40 years ago. He conceded that people face large health-care costs, but income-based programs exist for specific maladies.

SENATOR COGHILL countered that he has seen a dramatic increase in health-care costs in his district, almost a 60-percent rise. He said combined with energy costs and no subsidies, middle-income people were nearly broke to the starvation point.

[5:00:33 PM](#)

CHAIR DUNLEAVY revealed that he had gone to many "Alaskana" businesses that sell four-wheelers, snow machines, boats, etcetera and owners said they were not doing very well due to oil company lay-offs and the cut to the PFD. He asked how much the \$700 million PFD cut impacted the Alaska economy.

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DR. TOWNSEND replied that the \$700 million to the PFD had a significant impact on the economy. He opined that if the \$700 million was put into the economy, the level of the state's recession would have been moderated significantly with a 3,000 or 4,000 job difference. He explained that the reduced PFD also had an impact on future purchases as well. He noted an ISER study that showed Alaska's PFD program has reduced poverty by 25 percent. He opined that Alaska's PFD program is unique in the U.S. and is like European countries that provide income to families with children. He said that taking the programs away in Europe would be viewed as having a negative impact on families and reducing the PFD would have a similar negative impact on the lowest income Alaskans.

CHAIR DUNLEAVY asked if he moved to Alaska for the PFD.

DR. TOWNSEND answered that he did not.

CHAIR DUNLEAVY remarked that people have moved to Alaska for the PFD and inquired if research has been done on the topic.

[5:08:46 PM](#)

DR. TOWNSEND remarked that moving to Alaska is expensive in addition to the state's higher cost of living. He conceded that receiving the PFD would be part of the calculation on whether to move to Alaska, but the PFD would not dominate the decision due to other factors.

CHAIR DUNLEAVY announced that the committee will welcome Dr. Townsend back for future meetings. He opined that the research and data ISER provides is important so that the Legislature can make sound decisions.

5:10:44 PM

There being no further business to come before the committee, Chair Dunleavy adjourned the Senate State Affairs Standing Committee at 5:10 p.m.