

HOUSE FINANCE COMMITTEE  
SECOND SPECIAL SESSION  
July 11, 2019  
2:35 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 2:35 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Jennifer Johnston, Vice-Chair  
Representative Dan Ortiz, Vice-Chair  
Representative Andy Josephson  
Representative Gary Knopp  
Representative Bart LeBon

MEMBERS ABSENT

Representative Tammie Wilson, Co-Chair  
Representative Ben Carpenter  
Representative Kelly Merrick  
Representative Colleen Sullivan-Leonard  
Representative Cathy Tilton

ALSO PRESENT

Larry Persily, Self, Juneau; Senator Chris Birch;  
Representative Adam Wool; Representative Louise Stutes;  
Representative Zach Fields; Representative Sarah Hannan;  
Representative Andi Story.

SUMMARY

HB 2001    APPROP: ERA FOR PERMANENT FUND DIVIDENDS

HB 2001 was HEARD and HELD in committee for further consideration.

PRESENTATION BY LARRY PERSILY GIVEN TO ALASKAN BUSINESS LEADERS

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Co-Chair Foster acknowledged Senator Chris Birch in the audience. He reviewed the meeting agenda. He shared that Larry Persily would deliver a presentation to help the committee understand the considerations at hand regarding HB 2001.

#hb2001  
HOUSE BILL NO. 2001

"An Act making a special appropriation from the earnings reserve account for the payment of permanent fund dividends; and providing for an effective date."

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^PRESENTATION BY LARRY PERSILY GIVEN TO ALASKAN BUSINESS LEADERS

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LARRY PERSILY, SELF, JUNEAU, shared that he had recently given a presentation to a group of Alaskan business leaders. He began with a slide showing an open letter from Alaska business leaders (copy on file). The letter included four beliefs pertaining to pertinent issues surrounding the Permanent Fund Dividend. He believed businesses that had signed the letter were concerned about the effects on the economy due to budget cuts and the long-term effects on the Permanent Fund from overdrawing the percent of market value (POMV) adopted by the legislature on 2018. Discussions that had led to the writing of the letter had not included the legality of whether the current special session should be held in Juneau or Wasilla.

Vice-Chair Ortiz understood that the business leaders had come together specifically to discuss the points of the letter.

Mr. Persily replied that the Rasmussen Foundation had contacted as many business leaders as possible to discuss the urgent issue of the state budget. He said that participants had agreed on four points:

1. Legislators need to convene in a single location so that all 60 members can vote Gov. Mike Dunleavy's

budget vetoes up or down. Every legislator owes it to the public to go on the record on this important vote.

2. Lawmakers need to adopt and adhere to a new Permanent Fund dividend formula that will not draw down unsustainable amounts from the fund's earnings reserve this year, next year or in any future year.
3. The governor's more than \$400 million in budget vetoes, when combined with the \$190 million already cut out of the budget by the Legislature this year, go too far, too fast. Cuts of that size will eliminate critical public services and result in the loss of thousands of jobs, likely pushing Alaska into recession. The public wants a responsible, sustainable budget for years to come.
4. The current stalemate is bad for business and for a healthy Alaska where Alaskans want to live and work. The public needs decisions now, not later. and we need decisions that look long term, overlooking short-term politics. Nobody benefits from repeating this debate a year from now.

Mr. Persily explained that when he gave presentation or wrote opinion columns, he used the word "we" because he believed that the state's condition was the fault of the collective. He found it unfortunate that for the past two generations the dividend had become political, with candidates promising large dividends and no taxes. The public had asked for, and depended on, programs paid for out of the General Fund. He added that the state had drawn from the Constitutional Budget Reserve (CBR) for over half of its existence. He lamented that failed attempts at economic diversification had contributed to the current fiscal crisis.

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Mr. Persily turned to slide 2: "How did we get here today?":

- After cutting hundreds of millions from the state operating budget over his four years, Gov. Walker said 'enough' and proposed an essentially flat FY2020 budget for his successor
- Gov. Dunleavy took office, promising to restore a full dividend of \$3,000, and then proposed cutting public services and taking over \$400

million from municipalities to make it all balance

- Legislators rejected the governor's plan, but cut \$190 million
- The Legislature has been unable to agree on a dividend amount
- Gov. Dunleavy vetoed more than \$400 million from the budget
- The Legislature is back in special session – the second this year

Mr. Persily shared that the group brought together by the foundation had reviewed the mitigating factors on the slide.

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Mr. Persily addressed slide 3: "Examples of budget vetoes":

#### Homeless

- Homeless Services - \$11 million - over 80% of funding cut. Hits to Rural CAP \$1.6 million, Catholic Social Services \$1.4 million for Brother Francis Shelter and Clare House, \$700,000 from Covenant House, \$500,000 from the AWAIC shelter. At least 500 vulnerable adults and children will lose shelter.

#### HEALTH CARE

- Behavioral Health - \$6 million on top of the \$6 million cut last fiscal year. Deep cuts to mental health and substance abuse treatment programs.
- Medicaid - \$50 million, on top of the Legislature's \$75 million cut, totaling almost 25% of state funding.

Mr. Persily shared that one of the executives of the business owner group had lamented that she would not be able to donate enough to nonprofits to fill the gaps created by the cuts. He turned to slide 4:

#### EDUCATION

- Early Childhood - \$8.6 million - ELIMINATED. Head Start, early childhood education, Parents as Teachers.

- Local school debt reimbursement - \$49 million. Pushing the debt to municipalities, hitting property taxes.
- University of Alaska - \$130 million. A 41% reduction in state funding. The university already has sent furlough notices to 2,500 employees. The cut in state funding means a loss of \$44 million in federal grants.

Mr. Persily said that he had educated the group on the legislative process for considering the vetoes listed on slide 5, "What's the process this week":

- Legislature convened in special session Monday, in Juneau (almost two-thirds of lawmakers were there)
- In calling the special session, the governor said, 'Work in Wasilla,' but most legislators said no thanks
- Legal arguments both ways, not an immediate concern
- Legislature has through the fifth day of special session to override budget vetoes (requires three-quarters majority)
- Is it five calendar days (ending at midnight Friday) or is it five 24-hour days (1 p.m. Saturday) – never been tested
- End game likely will include vetoes, PFD, capital budget

Mr. Persily felt that the group had an understanding that the financial crisis was not comprised of distinct, unconnected problems. He reiterated the four determinations the group had reached, as written in the letter.

Mr. Persily moved to slide 6, "How much PFD can we afford.":

- About \$1,000 under the Legislature's budget, with no excess draw on Permanent Fund earnings reserve
- \$1,600 with an additional \$400 million in budget cuts on top of the \$190 million already adopted by legislators, or break the 5.25% Permanent Fund draw and go to 6%

- \$3,000 would leave a \$1.3 billion budget gap, requiring all of the governor's operating budget vetoes, a minimal statewide capital budget, plus taking an almost 7% percent-of-market-value draw on the Permanent Fund

Mr. Persily elaborated that a shortfall of \$400 million would need to be covered through budget cuts, a three-quarter vote to access money in the CBR, or by breaking the 5.25 percent structured POMV draw. He addressed a scenario with a \$3,000 PFD. He reported that the balance of the CBR was approximately \$2.1 billion. He relayed that the group of business leaders felt that a POMV draw of 7 percent or more was irresponsible. He stated that at some point in the relatively near future there would be trouble managing the Permanent Fund. He stressed that if the PFD was over \$1,000 it would be necessary to determine where the funds were coming from.

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Co-Chair Foster recognized Representatives Louise Stutes, Adam Wool, and Zach Fields in the audience.

Mr. Persily advanced to a bar chart on slide 7 titled "Real general fund revenue/budget history (2018 dollars per person)," showing FY 76 to FY 18 and adjusted for inflation (generated by the Legislative Finance Division). The bright green portion of the chart reflected revenue with peaks in the 1980s (with 2 million barrels per day or four times the current production); and under the Palin administration era oil taxes [FY 08], which had coincidentally coincided with oil prices of \$100 per barrel. He explained that the numbers would not have been as high if oil prices had been \$40 to \$50 per barrel. He pointed to agency operations and operating capital and pointed out that the FY 18 per capita spending level was close to the 1976 level.

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Mr. Persily turned to a bar chart on slide 8 titled "End-of-year reserve balances." He discussed that balancing the current budget would require drawing from state reserves regardless of the dividend size. He noted that the state was using Permanent Fund earnings to help pay for schools and other public services for the first time in the past fiscal year. He reviewed that the CBR had been a ballot

proposition approved by voters almost 30 years earlier as a way to save some money. He noted it took a three-quarter vote [by the legislature] to access CBR funds. The actual CBR fund had been a political compromise. He explained that the Senate had wanted a spending limit and the House had not; therefore, the settlements had been invested in the CBR and a three-quarter vote had been implemented, which effectively worked as a spending limit. The Statutory Budget Reserve (SBR) had been implemented by the legislature about 10 years back and was accessible by a simple majority. He reported the SBR was near the end of its life, with a current balance of about \$170 million.

Mr. Persily referenced the Department of Revenue (DOR) website that showed a CBR balance of \$2.1 billion as of July 1. According to the Permanent Fund website, the Earnings Reserve Account (ERA) was \$16 billion as of June 1 (before any transfers to the principal in the current budget). He reported that the group of business leaders had been very concerned and was aware of the spending down of the SBR and CBR over recent years. There had been discussion about the need to maintain a decent CBR balance to deal with fluctuation in oil prices. He noted that oil prices were currently around \$69 per barrel and fairly recently prices had been closer to \$60 per barrel. There was a purpose to maintaining a balance and not overdrawing the Permanent Fund in order to help pay for public services and dividends wanted by Alaskans.

Mr. Persily clarified the meeting of business leaders had not been partisan and had not included accusations or name calling. The purpose had been to meet and discuss the problems facing the legislature as investors and as business owners. Discussion had also included how they would be affected as employers and how their employees would be affected. Additionally, they had discussed how the budget situation impacted their ability to make long-term decisions. He highlighted that the legislature had talked for years about the importance of fiscal certainty and stability for the oil and gas industry to make multibillion dollar investments. He pointed out that non-oil and gas businesses needed the same fiscal stability to make investment decisions.

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Co-Chair Foster recognized Representative Sarah Hannan in the audience.

Vice-Chair Johnston asked if additional businesses had signed onto the original letter that had been published in the paper.

Mr. Persily replied in the affirmative. He detailed that the meeting had been on a Tuesday and there had been a fast turnaround to get the advertisement produced, gather signatures, and publish the list in the paper on Thursday. He was aware of at least one additional signature.

Vice-Chair Johnston noted Mr. Persily had been in and out of the building for years.

Mr. Persily affirmed he had been in and out of the building for decades.

Vice-Chair Johnston stated that a promise had been made on the House floor in the past several days that the legislature was not finished. She continued that the legislature had not been able to get veto overrides, but it was working to come up with an agreement with the Minority and governor on a budget that had a reduced economic impact in comparison to the current budget. She stated the budget contained over \$600 million in cuts to services. She asked where Mr. Persily saw the legislature getting the funds.

Mr. Persily took an oil price increase off the table and relayed there were three options. There was currently about \$170 million remaining in the SBR, which if used to boost the dividend could add about \$275 per person depending on the number of applicants. He considered whether it was a good use of the money from a policy standpoint. There was \$2.1 billion in the CBR, which required a three-quarter vote. He cautioned that if too much was taken out of the CBR it would jeopardize cash flow for the state. The third option was to break the 5.25 percent POMV draw. He concluded that none of the options were great.

Representative Knopp asked if Mr. Persily was indicating the state needed to spend within its means. He observed that none of the options sounded good.

Mr. Persily agreed, but clarified his recommendation to spend within the state's means included spending on the PFD.

Representative Knopp pointed to slide 6 that addressed how much PFD the state could afford. He looked at the second bullet point and asked if the state could afford a \$1,600 PFD if the legislature let the \$400 million in vetoed funding stand, combined with the \$190 million in cuts adopted by the legislature. He wondered if the scenario would still involve a draw over 5.25 percent.

Mr. Persily answered that maintaining the \$190 million in cuts adopted by the legislature combined with the \$400 million in vetoed funds, would mean the state could withstand roughly a \$1,600 PFD without having to exceed the 5.25 percent draw. He clarified that it was an either or scenario - the \$400 million in budget cuts could be maintained or the 5.25 percent POMV draw could be exceeded or go into the CBR.

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Representative Knopp surmised that if the legislature was not willing to let the vetoes stand at \$400 million or exceed the 5.25 percent draw, it would mean spending residual cash, which would govern the size of the dividend.

Mr. Persily answered in the affirmative. He elaborated it was the money on the table. The decision was about how to best spend the money for the collective future of Alaska.

Representative Knopp stated that the legislature had been beat up for a number of years for spending down savings. He heard it daily from the public that the legislature had spent down \$15 billion over four years. The legislature had announced in the beginning of session that it was not spending any more savings. He noted that the previous year the legislature had passed the POMV draw in SB 26. He stressed that the House Majority coalition had announced at the beginning of session that it would not exceed the [5.25 percent] draw. He underscored that exceeding the draw would decimate the ERA over time if it was not reigned in. He did not see the options. He stated that services could be sacrificed larger dividends. He asked if that route was smart and considered it may be to a small degree. He asked for Mr. Persily's thoughts.

Mr. Persily agreed it was the dilemma. There could be a bigger dividend if there were cuts to grants for homeless programs, student scholarships (where students had already enrolled and made plans), University programs that attracted federal dollars for research grants, Village Public Safety Officers (VPSOs), and other programs that may not be covered by the reverse sweep such as Power Cost Equalization (PCE). The question was about the best way to spend the limited dollars for the collective or individual good. He agreed the legislature was getting beat up by a segment of the public over the issue. He remarked it was unfortunate the situation had come down to that.

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Representative Knopp used a hypothetical scenario where the PCE sweep was not reversed and the fund no longer generated \$60 million that the state could spend. He remarked that it would either leave rural Alaska "high and dry" without any support for high energy costs or the state would pay the price somewhere in the future. He asked if it was fair to say that the state was in a terrible predicament in the outyears if it tried make the funds up or assist in any way.

Mr. Persily predicted that if PCE was not funded, people would be delinquent on utility bills; utilities that may have bond debts to cover or maintenance costs to cover would not have money to do the work; and some villagers may move to Anchorage or Fairbanks, which would exacerbate needs for social problems if there was no available housing or jobs. He explained that the situation would create major problems in peoples' lives, for utilities, for investors who had loaned money to utilities, and for communities. He noted that people would receive a dividend.

Co-Chair Foster highlighted that PCE and the Higher Education Fund (scholarships due to go out to thousands of students going to college) were tied together. He cited a recent tweet posted by the governor stating that rhetoric on the reverse sweep is incorrect, the power of appropriation resided solely with the legislature, and the legislature had failed to adequately fund these programs. He agreed the legislature had the power of appropriation and that it needed to adequately fund programs. He elaborated it was true when talking about the reverse sweep

and the 18 funds and programs that historically had been considered sweepable. In that situation, a three-quarter vote was required to appropriate the money into programs. He highlighted four of the programs including Railbelt energy, the Alaska Marine Highway System (AMHS) vessel replacement, educational facilities maintenance, and the civil legal services fund. He stated that the funds were considered by prior governors to be sweepable. The current administration was looking to expand the list of 18 to sweep funds from an additional 12 or so funds including PCE and the Higher Education Fund.

Co-Chair Foster continued that former Governor Parnell had championed the Higher Education Fund and did not consider it to be sweepable. He stated that the current administration considered the fund to be sweepable and as a result 12,000 emails had been sent to students statewide informing them that they would not receive their scholarship funds. His understanding was that one-third of the tuition received by the University system went to helping young students go to college. He stated that if the fund was not swept (as had been the case with former Governors Walker and Parnell), a three-quarter vote to appropriate the funds was unnecessary. He noted that appropriation would still require a majority vote as was normal; however, swept funds required a three-quarter vote.

Co-Chair Foster stressed that the PCE Fund had not been swept by governors going back to the 1980s when the program had first been created - meaning the three-quarter vote had not been needed. He disputed the governor's claim that the legislature had failed to adequately fund programs. He underscored there was more to the story; the funds had historically not been swept and the governor had created a new situation where a higher bar was required to fund the programs. He explained that the governor was sweeping funds that were normally not swept. He asked for comment by Mr. Persily.

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Mr. Persily agreed there was more to the story that the public was not getting. He shared it was the reason he had purchased a newspaper in 2019 (and was considering buying a couple more) and would be teaching journalism at University of Alaska-Anchorage in the fall if there was a journalism department in the fall. He reported that at the recent

meeting, the business community had discussed that all of the impacts [of the governor's vetoes] were not known. For example, if scholarships were not paid, which accounted for one-third of tuition would it mean more than the budget vetoes would be lost because students would leave the University because they could not afford it. The CBR was set up alone - technically, when money was taken out, it had to be put back in. The legislature/state had paid back some of the draws over the years, not the current last several years. The way the law had been interpreted was that at the end of the fiscal year certain accounts were swept back into the CBR because it was necessary to repay the loan.

Mr. Persily elaborated it was not possible to tell the bank that there was money in the bank, but the state did not want to pay its loan payment. He explained that the money was swept up and as part of a three-quarter vote at the end of every session and was restored at 12:01 a.m. [on July 1]. The legislature did not vote against funding PCE or to drain the account. The problem was that PCE and perhaps other accounts had been caught up in the political inability to get a three-quarter vote on the CBR.

Co-Chair Foster acknowledged Representative Andi Story in the audience.

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Representative LeBon highlighted an earlier reference to SB 26. He discussed that in the preceding year, the legislature had identified SB 26 as a POMV product to move the state forward on funding for the general cost of doing business and the PFD. He asked if Mr. Persily had an opinion about the using the POMV approach. Additionally, he wondered if Mr. Persily had an opinion about a formula within a formula. He stated that the formula took a five-year average on the value of the Permanent Fund and reasoned that the actual draw was less than 5.25 percent.

Mr. Persily replied that the legislature had debated for years about how to deal with Permanent Fund earnings, which people knew eventually would have to go to help pay for public services. He agreed that SB 26 looked back five years at the fund's realized earnings, determined an average and took 5.25 percent of the average. He stated it was 5.25 percent of the average, but less than 5.25 percent

of the current balance. The rationality for taking the five-year average was to account for volatility. He stated there would be some great [earnings] years, but it was not that long ago that the Permanent Fund had lost about \$6 billion in one year. The state did not want the uncertainty of basing the draw - which would pay for schools, dividends, VPSOs, homeless programs, Pre-K - on the fluctuations of Wall Street.

Mr. Persily continued that the previous year the legislature had discussed putting in statute or the constitution a hard and fast allocation of the 5.25 percent divided between services and PFDs (e.g. 50/50 for public services and PFDs, 80 percent for public services, 80 percent for dividends). He explained it was a finite amount of money - the more that went to dividends, the less there was for public services and vice versa. The preceding year, the legislature had agreed it was good fiscal policy for the endowment to limit how much was taken out; however, politically there had been no agreement on how to split it between public services, community services, and the dividend. He clarified he was not placing blame on legislators from the past year - it was not an easy task.

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Representative Josephson referenced the governor's tweet highlighted by Co-Chair Foster. He stated it was true that the delivery of 30 votes for the CBR was sometimes bargained for and he had been part of the minority that had participated. He understood it was a social compact of sorts. He provided a social compact scenario where a person driving pulled over when hearing an ambulance because at some point the ambulance could be coming for them. He understood the need to make the accounts work and that at some point the three-quarter vote had to be delivered. He stated that he had not been given a concrete request for the delivery of a three-quarter vote. He referenced that Senator Lyman Hoffman had mentioned that in *Hickel v. Cowper* there was reference to the Alaska Energy Authority as being an independent authority linked to PCE that may be exempt from the sweep. He stated it reminded him that the legislature may end up in court with the administration over three or four different matters.

Representative Josephson looked at the slide titled "How much PFD can we afford." He stated that it struck him that

to honor the 5.25 percent draw but to sweeten the dividend, the CBR could be used (the treasury office noted \$1.2 billion to \$1.4 billion was needed and the CBR contained \$2.1 billion). He remarked that some constituents supporting the large dividend only wanted the PFD funds to come from the ERA (resource dollars), not the CBR. He asked for verification that Mr. Persily was reminding the committee - even though there was a tendency to consider going beyond a 5.25 percent draw in order to cut a deal - that people were watching the legislature, including lenders, banks, and bond issuers.

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Mr. Persily answered that he did not believe anyone at the table of business leaders would be apoplectic if the legislature drew 5.3 percent instead of 5.25 percent, in order to have peace in the current time. However, discussion of draws of 6 to 7 percent (and the understanding the same problem would occur in the following year) made people very nervous. He discussed the reverse sweep and three-quarter vote and noted that in past years there had been end of session negotiations (some would call political blackmail) between the Majority and Minority to get the three-quarter vote. For example, there had been funds in the capital budget or programs that the Minority would agree to a three-quarter vote for. He explained that the negotiations had always been over budget items, not the reverse sweep language. He stated there had been an understanding that legislators could fight over specific projects (e.g. a road), but they would not jeopardize programs with the reverse sweep.

Mr. Persily addressed the CBR and agreed there was nothing magical about \$2.1 [billion] and that taking a bit of the balance to preserve the sanctity of Alaska's fiscal future would not destroy the economy. He recalled working for DOR from 1997 to 2003 when the state had been running billion dollar deficits on a budget that was about \$2.4 billion (about 40 percent of the funds came from budget reserves and it was before many cases had settled). He reported that the CBR had dipped below \$2 billion; at the time DOR had determined that \$1.5 billion was the red line. He explained that if the number dipped below that amount, statute allowed the state to issue revenue anticipation notes - it was like a paycheck loan where money was borrowed for the short-term. He relayed that the budget had been smaller at

the time. He advised looking at a red line a bit above \$1.5 billion, but he agreed there was a bit of headroom if that was what it would take to get through the situation and come up with a lasting plan in the future. A lasting plan would include an allocation of the POMV between the individual and the community.

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Representative Josephson referred back to the "How much PFD can we afford" slide. He was concerned with the second bullet point because he strongly believed the \$400 million in vetoed funds belonged to public safety officers, professors, domestic violence shelters, public radio, and more. He explained it was the reason he would have joined in Senator Chris Birch's amendment for a \$900 or \$1,000 PFD. He thought there must be a deal at hand, otherwise the proposition of vetoes and no dividend was a lose-lose scenario. The goal was a win-win scenario.

Mr. Persily answered that the point he had tried to get at with the business leader group had been that even if there was no veto override, the PFD was only at \$1,600. Whereas, if the PFD was \$3,000, the \$400 million [in vetoes] only amounted to less than one-third of the funds needed; there would be serious problems to pay down a \$3,000 dividend.

Vice-Chair Johnston thanked Mr. Persily for speaking about revenue anticipation notes (or tax anticipation notes (TANs) if the state had taxes), which was a common way for governments to carry their cash management. She considered that if the legislature drew down the SBR and CBR and got to a point where it did not have the cash, it would have to go with TANs. Her experience had been that you hoped there was a spread - that a little money could be earned when the money came in if the interest rate was low enough on the tax or revenue anticipation notes.

Vice-Chair Johnston considered the option where the legislature exceeded the structured draw from the ERA. She stated there were a number of things done by the legislature over the past four years that would give her pause and could have an impact on the state's financial standing and bond rating. She noted it appeared the state had been able to protect its bond rating because Alaska was very fortunate with its \$65 billion [Permanent Fund] fund balance. She wondered what would happen to the state's bond

rating if it started making unstructured draws and potentially revenue anticipation notes.

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Mr. Persily answered that when the legislature had passed SB 26 that established the draw limit of 5.25 percent, the rating agencies had taken the state off their negative watch list and indicated the action was encouraging. Based on his conversations with individuals in public finance, he expected that if the legislature drew 6 or 7 percent, he believed rating agencies would have a reversal of their encouraging news from the previous year. The agencies would be worried about cash flow. He agreed that some interest would have to be paid when using revenue anticipation notes; if too much was paid, the state would be digging itself into a deeper hole like a payday loan.

Vice-Chair Johnston referenced discussion on the House floor earlier in the day and noted they had not had the votes to override the vetoes in terms of a capital budget. She remarked it was not possible to know where the price of oil would be or what markets would be doing. She added that many times the two went in opposite directions. She noted that Alaska was lucky as a state because it had that balance. She reasoned that at some point the state would need a capital budget. She thought that at some point the legislature would need to talk about bonding again, which was something the state had done for a long period of time. She considered what the cost would be if the legislature broke the structured draw and the state was docked by rating agencies.

Mr. Persily agreed. He elaborated that the state had a backlog of public works needs including construction, maintenance, and repairs. The state could use a bond issue, which meant the creditors would determine the interest figure based on the risk. He relayed that if the state was financially irresponsible, it would have to pay more to borrow the money. It was currently a good time to borrow money as rates were very low. Legislators and others had talked in the past couple of years about putting a bond issue package together. He pointed out that it had to be factored into the state's budget - if the state sold the bonds, it would have an annual payment on the debt, which would increase the state's spending. He noted there would

be significant benefit upfront, but the debt would have to be paid over time.

Vice-Chair Johnston remarked that former Representative and Senator Anna MacKinnon was currently studying the state's debt and debt limits in a Commonwealth North study. She found the information available on the Commonwealth North website to be very informative.

Mr. Persily agreed the state had the capacity to take on additional debt, but there was a question about what the debt would fund how the state would pay for it. He stated there was capacity to meet some of the needs that had accumulated over the years of essentially negligible capital budgets consisting of the federal match and not much else.

HB 2001 was HEARD and HELD in committee for further consideration.

Co-Chair Foster noted the next meeting was scheduled for the following day.

#

ADJOURNMENT

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The meeting was adjourned at 3:27 p.m.