

HOUSE FINANCE COMMITTEE
SECOND SPECIAL SESSION
July 25, 2019
9:02 a.m.

9:02:51 AM

[Note: Continued from recessed meeting on Wednesday, July 24, 2019. See separate minutes for detail.]

CALL TO ORDER

Co-Chair Johnston called the House Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Jennifer Johnston, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Andy Josephson
Representative Gary Knopp
Representative Bart LeBon
Representative Kelly Merrick (via teleconference)
Representative Colleen Sullivan-Leonard
Representative Cathy Tilton
Representative Adam Wool

MEMBERS ABSENT

Representative Ben Carpenter

ALSO PRESENT

Erin Shine, Staff, Representative Jennifer Johnston; Amanda Ryder, Analyst, Legislative Finance Division; Representative Tammie Wilson; Representative Sarah Vance; Representative Sara Hannan.

PRESENT VIA TELECONFERENCE

Representative Kelly Merrick

SUMMARY

HB 2003 APPROP: PAYMENT OF PFD

CSHB 2003 (FIN) was REPORTED out of committee with seven "do pass" recommendations, one "do not pass" recommendation, and one "amend" recommendation.

Co-Chair Johnston reviewed the agenda for the meeting.

#hb2003

HOUSE BILL NO. 2003

"An Act making special appropriations for the payment of permanent fund dividends; and providing for an effective date."

9:03:49 AM

Representative Josephson discussed that some of the public had asked the legislature not to give up their careers, jobs, livelihoods, and dreams for Permanent Fund Dividend (PFD) payments. He clarified that the bill as written heeded those comments; it did not encroach in a competitive way with dollars the legislature was trying to restore to the budget. He supported the bill.

Representative Sullivan-Leonard requested to hear the calculation of the breakdown for the percent of market value (POMV) model. She also asked for a spreadsheet for clarification.

9:05:06 AM

ERIN SHINE, STAFF, REPRESENTATIVE JENNIFER JOHNSTON, asked for clarity on the specific information Representative Sullivan-Leonard was interested in. She detailed that the bill would appropriate \$901,470,000, which had been included in legislation previously considered by the committee. The figure took some of the budget veto items into consideration. The items that were not restored were also calculated into the figure as well. She explained it would leave a PFD of \$1,336. If the Statutory Budget Reserve (SBR) reverse sweep was achieved the PFD would increase to \$1,605.

Representative Sullivan-Leonard was looking at the calculation of the POMV that arrived at the \$1,336 PFD. She asked if a 50/50 or 60/40 split was used.

Co-Chair Johnston responded that the bill used a net dividend rather than a formula based dividend. The structured POMV draw was being utilized as part of the revenue source for the budget. The dividend in the bill was built on funds available after balancing the budget. She remarked that if SB 2002 was successful, the savings would be used for the PFD in order to reach a compromise.

Co-Chair Johnston acknowledged that Representative Tammie Wilson, Representative Sarah Vance, and Representative Sara Hannan were present in the audience.

Representative Sullivan-Leonard addressed the existing statute specifying the PFD formula that was supposed to be followed. She stated that if the calculation was based on the statutory formula and was divided 50/50 it would result in a \$2,200 PFD. She believed the PFD in the bill was not based on a calculation.

Co-Chair Johnston answered that the bill included a net PFD. She offered to have an analyst from the Legislative Finance Division (LFD) provide information on the split.

Ms. Shine added that the 5.25 percent POMV for state revenue in FY 20 was about \$2.9 billion. Currently, there was traditional revenue of approximately \$2.3 billion, for a total of \$5.2 billion to spend on the state's costs. The bill envisioned the state costs at about \$5.2 billion. The total left about \$900 million [for the PFD], which was included in the bill.

[9:08:43 AM](#)

Co-Chair Johnston asked LFD to provide the split for the dividend in the bill. She asked for the split with the SBR and the split without the SBR.

AMANDA RYDER, ANALYST, LEGISLATIVE FINANCE DIVISION, answered that she did not have the information on hand. She offered to follow up. She shared that the bill utilized the 5.25 POMV draw and drew from savings for the current PFD.

Representative Wool thought Representative Sullivan-Leonard was asking what percentage POMV a \$1,600 PFD would be. He calculated a \$1,600 PFD would be about 38 percent of the draw (a split of 63/38 percent). He stated that HB 2002

started off as a surplus PFD of approximately \$900, using the money remaining after paying for a certain budget. He remarked that the committee had taken the to other communities and it had received significant public support. He referenced Ms. Shine's earlier statement that if the SBR was not swept, the surplus PFD would be approximately \$1,300. He highlighted the change from \$900 to \$1,300. He asked if the PFD increase was based on restored cuts of about \$90 million. Alternatively, he wondered if something else resulted in the increase.

Ms. Shine responded that there were three bills under consideration by the legislature, one was under consideration by the House Finance Committee [HB 2003]. She explained that SB 2002 included the capital budget and the reverse sweep, which used the Constitutional Budget Reserve (CBR) as a fund source. She detailed that it freed up about \$172 million to \$174 million. She relayed that if the legislature accessed the SBR, as envisioned by HB 2003, it would result in another \$172 million. Currently, about \$89 million of the governor's veto had not been restored. All of the items she had listed were factored into the PFD amount included in HB 2003.

[9:11:56 AM](#)

Representative Wool asked for verification that if the SBR was not swept, the capital budget amount in SB 2002 would have to be accounted for if the PFD was increased from \$900 to \$1,300. He asked for verification that SB 2002 included \$172 million in the SBR and approximately \$170 million in CBR funds for the capital budget.

Ms. Shine responded affirmatively.

Co-Chair Johnston asked Ms. Ryder to put her name on the record.

Ms. Ryder complied.

Representative Josephson followed up on an earlier question by Representative Sullivan-Leonard. He suggested that without the reverse sweep the PFD in HB 2003 constituted a 31 percent draw and 69 percent for funding government. The amount would increase to about 37 or 38 percent with the SBR. He observed that the extra funds would not be part of the POMV.

Representative Sullivan-Leonard asked Ms. Ryder to provide some history about the calculation and disbursement of the PFD in prior years. She discussed that in the past few sessions PFDs were calculated, and half had been put back into the Permanent Fund Earnings Reserve Account (ERA) and half was distributed to the public. She asked how the calculation had been done. She wondered if the POMV model had been followed.

[9:14:10 AM](#)

Ms. Ryder responded that she was not the best person to speak about the model. The POMV was 5.25 percent of the total value of the Permanent Fund based on the average balance of the previous five years. The method was based on the endowment model where the maximum of a certain percentage was drawn in order to avoid overdrawing and losing value on an inflation adjusted basis. She addressed the 5.25 percent and shared that when averaging backwards the amount was 4.7 percent or so of the actual value.

Representative Sullivan-Leonard referenced Co-Chair Johnston's discussion of the net value of the Permanent Fund. She asked how the net value was different from the original calculation of the POMV.

Ms. Ryder asked for clarification on the question.

Co-Chair Johnston explained her reference to "net." She detailed that the calculation subtracted expenses from revenues and the remaining surplus went to the PFD. There had been an effort to be as balanced as possible. She highlighted the necessity of compromise and explained that in order to reach a \$1,600 PFD, savings from the SBR were included.

Representative Sullivan-Leonard thought the figures in the bill appeared to reflect a split of 30 percent to the PFD and 70 percent to government.

Representative Wool clarified that the 70/30 split did not include the \$172 million from the SBR. He liked the surplus PFD that had been included in HB 2002. He highlighted that HB 2003 would use savings to increase the PFD, which could not be done every year.

Co-Chair Johnston agreed.

9:17:33 AM

Representative Tilton asked if there would be an opportunity to offer an amendment.

Co-Chair Johnston asked if Representative Tilton had an amendment prepared.

Representative Tilton replied that she ordered an amendment from Legislative Legal Services that she had not yet received. She relayed she could make a conceptual amendment.

Representative Tilton MOVED to ADOPT Conceptual Amendment 1 (copy not on file):

Delete
Sections 1(a) and (b)

Insert
The amount authorized under AS 37.13.145(b) for the transfer by the Alaska Permanent Fund Corporation (APFC) on June 30, 2019, estimated to be \$1,944,000,000 is appropriated from the Earnings Reserve Account, AS 37.13.145 to the Dividend Fund AS 43.23.045(a) for the payment of Permanent Fund Dividends and for the administrative and associated costs for the fiscal year ending June 30, 2020.

Co-Chair Johnston asked for verification that the conceptual amendment would delete Section 1(a) and (b). She asked if Representative Tilton had also said Section (c).

Representative Tilton replied that the amendment did not include a Section (c). There was no such section in the legislation.

Representative Knopp OBJECTED.

Representative Tilton spoke to her amendment. She indicated there was a POMV statute and a statutory PFD statute. The amendment would pay out the statutory PFD. She understood the net divided concept, which had been discussed at length on the House floor the previous day. She referenced recent public testimony heard by the committee and pointed out

that it had been on vetoed items and had not focused on the PFD the public expected for the current year. Additionally, the ERA contained money from past dividends that were not paid out.

Representative Sullivan-Leonard supported Conceptual Amendment 1. She stated that the ERA contained \$19 billion and the corpus of the Permanent Fund contained \$66 billion. She highlighted that earlier in the year there had been overwhelming public testimony from seniors, students, and families asking for a full statutory PFD. She believed the people were tired of continuing to say they wanted the full statutory PFD. The amendment would restore the PFD to the statutory level.

[9:21:49 AM](#)

Co-Chair Johnston asked Representative Sullivan-Leonard how much she had stated was currently in the ERA and Permanent Fund corpus.

Representative Sullivan-Leonard replied that as of May 2019, there was \$19 billion in the ERA and \$66 billion in the corpus.

Co-Chair Johnston clarified that the \$66 billion was the total balance, including the ERA.

Representative Knopp opposed the amendment. He agreed with Representatives Tilton and Sullivan-Leonard that the two statutes conflicted. He reasoned that no matter what the legislature did, the solution would likely be in violation of one of the statutes. He felt strongly that the issue was about good, sound, fiscal policy. He stated that the balance of the ERA really made no difference because if the draw exceeded a sustainable amount, the fund would be depleted. He reasoned it did not make a difference if the balance was \$100 billion or \$10 billion in that regard. He stressed that continuing to draw more than the fund earned, the fund would be depleted in three to four years. He believed it was bad fiscal policy to draw more than the fund would earn.

[9:23:44 AM](#)

Representative LeBon spoke in opposition to the amendment. He agreed with the previous speaker that it would be

irresponsible to over draw from the ERA. He suggested reviewing the constitution and the amendment that passed in 1976 establishing the Permanent Fund. He relayed it was necessary for the legislature to take direction from the expectation of the voters (from that time) of the fund's long-term sustainability for subsequent generations and the protection of the fund in the constitution from any law.

Co-Chair Foster commented that the committee had received public testimony in Anchorage, Wasilla, and Fairbanks on HB 2001. He detailed that HB 2001 was a two-part bill that restored all of the governor's vetoes and paid a surplus PFD of just over \$900. He elaborated that the committee had received myriad comments speaking to the topics. He reported that 619 people had testified in person or on the phone and 80 percent of the testifiers supported the bill. Additionally, the committee had received 1,780 emails with 89 percent in support of the bill. He emphasized that the bill had included a PFD and many people had spoken to it.

[9:25:54 AM](#)

Representative Josephson added there were likely additional emails that had been received by the committee since the previous week.

Representative Tilton provided wrap up on Conceptual Amendment 1. She pointed out there had been discussion about not borrowing from savings, but HB 2003 would borrow from savings. She agreed on the need to look at the long-term sustainability, but that was not currently under consideration by the committee. She stressed there was current law providing for a full statutory PFD. She highlighted that lawmakers had not made the decision to change how dividends were paid out. She noted that the bill provided a net surplus dividend of the remaining funds after government took its share. Her understanding was the PFD provided by the bill would result in a 60/30 split. She agreed there had been significant public testimony; however, people had not all testified they were willing to give up their PFD. She stated there had been much public testimony about the line item vetoes. She had also heard numerous people who were conflicted and wanted their PFD. She believed many people probably wanted a PFD and all of the services, but that was not sustainable. She pointed out that there had been public testimony on a previous bill

where thousands of people had been unhappy with a \$1,600 PFD; the individuals wanted a full statutory dividend.

Representative Knopp MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Merrick, Sullivan-Leonard, Tilton
OPPOSED: LeBon, Ortiz, Wool, Josephson, Knopp, Johnston, Foster

Representative Carpenter was absent from the vote.

The MOTION to ADOPT Conceptual Amendment 1 FAILED (3/7).

[9:30:11 AM](#)

Vice-Chair Ortiz MOVED to report CSHB 2003(FIN) out of Committee with individual recommendations.

Representative Tilton OBJECTED. She did not have any further comments.

A roll call vote was taken on the motion.

IN FAVOR: Knopp, LeBon, Ortiz, Wool, Josephson, Foster, Johnston
OPPOSED: Sullivan-Leonard, Tilton

Representative Merrick and Representative Carpenter were absent from the vote.

The MOTION PASSED (7/2).

There being NO further OBJECTION, CSHB 2003(FIN) was REPORTED out of committee with seven "do pass" recommendations, one "do not pass" recommendation, and one "amend" recommendation.

ADJOURNMENT

[9:31:27 AM](#)

The meeting was adjourned at 9:31 a.m.