

HOUSE FINANCE COMMITTEE
January 31, 2020
1:32 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Angela Rodell, Executive Director, Alaska Permanent Fund Corporation; Doug Wooliver, Deputy Administrative Director, Alaska Court System.

SUMMARY

`HB 205 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 205 was HEARD and HELD in committee for further consideration.

HB 206 APPROP: MENTAL HEALTH BUDGET

HB 206 was HEARD and HELD in committee for further consideration.

OVERVIEW: ALASKA PERMANENT FUND

FY 21 DEPARTMENT BUDGET OVERVIEW: JUDICIARY

Co-Chair Foster REVIEWED THE AGENDA FOR THE DAY.

#hb205

#hb206

HOUSE BILL NO. 205

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 206

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

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^OVERVIEW: ALASKA PERMANENT FUND

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ANGELA RODELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, introduced herself. She stated that there were a couple of additional people available for questions. She explained their roles in the corporation.

Ms. Rodell discussed the presentation, "Senate Finance Committee; APFC and The Alaska Permanent Fund" (copy on file). She looked at slide 2, "1969":

Alaska receives \$900 million in Prudhoe lease sale bonuses.

FY70 state budget: \$173 million.

Ms. Rodell discussed slide 3, "The Alaska Permanent Fund":

1976 Alaska voters approve a Constitutional Amendment establishing the Permanent Fund.

1977 Permanent Fund receives its first deposit of constitutionally dedicated oil revenues, \$734,000.

1980 The Alaska Permanent Fund Corporation is established to manage and invest the Fund.

2020 The Fund now has over \$66 billion in assets under management.

Ms. Rodell highlighted slide 4, "APFC - 40 Years":

Forty years ago, on April 8, 1980

- Governor Jay Hammond signed SB 161 into law, establishing the Alaska Permanent Fund Corporation as an independent state entity tasked with the management and investment of the Alaska Permanent Fund.

Today

- APFC is a talented, award-winning, investment firm that embodies the resiliency, integrity, and pioneer spirit of Alaska.

- The influence of our dynamic, Alaskan corporation extends around the world based on APFC's practices of good governance, transparency, and a long-term investment horizon.

Co-Chair Johnston recalled a testifier from the week prior, which addressed awards received by the fund management. She asked which awards were granted to those in the corporation.

Ms. Rodell mentioned that there was a slide in the presentation acknowledging the awards.

Ms. Rodell highlighted slide 5, "Generating Revenue for AK":

As stewards of the Alaska Permanent Fund, our team possesses the skill and efficiency to ensure that

Alaskans benefit from this resource for generations to come.

APFC's Mission

To manage and invest the assets of the permanent fund and other funds designated by law.

APFC's Vision

To deliver sustained, compelling investment returns as the United States' leading sovereign endowment manager, benefitting all current and future generations of Alaskans.

APFC's Values

Integrity - Stewardship - Passion

Ms. Rodell discussed slide 6, "Number 1 Source of Revenue." She remarked that the slide was from the Fall Revenue Forecasts from FY 15 to FY 19, and it showed that the Permanent Fund was the number one source of revenue for the state.

Ms. Rodell looked at slide 7, "POMV -AS 37.13.140 (b)":

Percent of Market Value (POMV)

Draw of the average market value of the Fund for the first five of the preceding six fiscal years, subject to annual appropriation by the Legislature.

5.25 percent - Effective July 1, 2018 (FY19)

- FY19 5.25 percent POMV = \$2.7 billion
- FY20 5.25 percent POMV = \$2.9 billion
- FY21 5.25 percent POMV = \$3.1 billion

5.0 percent - Effective July 1, 2021 (FY22)

- FY22 5.0 percent POMV = \$3.1 billion
- FY23 5.0 percent POMV = \$3.3 billion
- FY24 5.0 percent POMV = \$3.4 billion

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Vice-Chair Ortiz asked for the effective draw of the fund.

Ms. Rodell would get back to the committee.

Ms. Rodell highlighted slide 9, "Investment Responsibilities AS 37.13.120":

□ When adopting regulations or managing and investing fund assets, the prudent-investor rule shall be applied by the corporation. The corporation shall exercise the judgment and care that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the designation and management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering preservation of the purchasing power of the fund over time while maximizing the expected total return from both income and the appreciation of capital.

□ The corporation may not borrow money or guarantee from principal of the fund the obligations of others. Except the corporation may, either directly or through an entity in which the investment is made, borrow money if the borrowing is nonrecourse to the corporation and the fund.

□ The board shall maintain a reasonable diversification among investments unless, under the circumstances, it is clearly prudent not to do so. The board shall invest the assets of the fund in in-state investments to the extent that in-state investments are available and if the in-state investment provides the same risk-reward benefit as other investment opportunities.

Ms. Rodell addressed slide 10, "Historical Asset Allocation based on actuals." She explained that the asset allocation had changed due to many different factors. She noted that it showed that the corporation was responding to many different economies, and bring those returns back to the state. She remarked that the state had one of the most diverse sets of economies of any state. She felt that there was a resilient asset allocation that could withstand many volatilities within the market.

Ms. Rodell displayed slide 11, "Allocation Structure":

- The asset allocation structure is organized by growth and income strategies, as well as liquidity objectives.
- This strategic categorization provides a framework for ensuring that investment return targets are commensurate with the risks undertaken.
- The Board of Trustees reviews the Asset Allocation annually.

Ms. Rodell looked at slide 12, "Management of the Fund":

The Board of Trustees continues to work towards an optimal mix of in-house versus external management capabilities based on resources and opportunities.

In-House Management Allows for:

- Alignment of investment goals and mandates
- Increased flexibility in timing/tactical decisions
- Lower fees with investment benefit of active management

Co-Chair Johnston mentioned the presentation by the Department of Revenue (DOR) in the previous day. She wondered about the results of in-house investments and management fees. She asked for a breakdown of those investments and fees.

Ms. Rodell responded that the decrement was a result of the discontinuation of a program that was initiated ten years prior. She explained that the Board determined that program was no longer useful. The staff did a review of the program, and determined that there would be better returns in other assets.

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Representative Carpenter was curious about the asset allocation of the corpus versus the earning reserve account (ERA).

Ms. Rodell responded that they were the same. She provided an example to demonstrate the allocations.

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Representative Sullivan-Leonard mentioned discussion about a group managing within Alaska versus from a global perspective.

Ms. Rodell did not have information regarding the asset allocation. She elaborate that the Board allocated \$200 million out of its private equity special opportunities to the creation of an instate program. She furthered that \$100 million was allocated to McKinley Capital, which had great experience with the opportunities in Alaska. The other \$100 million was awarded to Barings on the East Coast. They had a reputation for developing instate programs for other states. She felt that there would be a good cross-section of ideas. She explained that, currently, there had not been yet been a draw, but when they were ready to fund the investment there would be a request to draw from the account.

Representative Sullivan-Leonard asked if there was a location online for additional information at the APFC website.

Ms. Rodell responded that the information was available on the APFC website.

Representative Knopp recalled that some funds were eliminated that were no longer a part of the investment portfolio. He understood that the decision only saved approximately \$2.5 million in management fees, but DOR showed a savings of \$25 million. He asked for more information about inhouse managers.

Ms. Rodell reported that APFC had two decrements. The first was a decrement for the discontinued external program of approximately \$17 million total. She explained that the \$2.5 million was a request to manage more of the real estate portfolio in house. The request created an increment to the operating budget of approximately \$100,000. She stated that the request was expected to save \$2.5 million in net of fee arrangements. She explained that using an outside firm to manage real estate deducted all

fees and expenses before remitting the income off of the properties.

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Ms. Rodell addressed slide 13, "Management of the Fund by Asset Class":

Internal Management

Public Markets -APFC investment staff directly buys and sells the publicly traded securities.

Private Markets -APFC investment staff directly conduct the investment and legal due diligence for the fund or investment and make the decision to invest.

Ms. Rodell looked at slide 14, "Awards and Accomplishments":

- Angela Rodell, CEO ranked in the Top 5 of Sovereign Wealth Quarterly's 100 Most Significant and Impactful Asset Owner and Public Executives of 2019.
- Marcus Frampton, CIO named one of Private Equity International's 40 under 40 Future Leaders of Private Equity and Trusted Insight's Sovereign Wealth Fund CIO of the Year for 2019. Recognized amongst CIO Magazines' Power 100 of 2019 and for their 2019 Industry Innovation Awards.
- PEI's Private Debt Magazine recognized APFC in their inaugural 30 Most Influential Investors in Private Credit for our internal management team's pioneering contributions in this asset class.
- Chad Brown, Human Resources Manager was accepted into Forbes Human Resource Council.
- Tom O'Day, Portfolio Manager - Fixed Income, selected by Chief Investment Officer Magazine for their Class of 2019 NextGen Award.
- Steve Moseley, Director of Alternative Assets was recognized as one of the 2018 Top 30 Private Equity, Venture Capital Investors by Trusted Insight.

- The Alaska Permanent Fund selected as North American Limited Partner of the Year for 2018 by Private Equity International for the second year in a row.
- APFC received dual nominations for 2018 Partnership of the Year for Institutional Investor's Allocators' Choice Awards and won the award for our Capital Constellation Partnership.

Ms. Rodell looked at slide 15, "Global Diversification as of June 30, 2019." She noted that the map showed the locations of investments around the world. She stressed the importance of the work outside of Alaska, and that the money was brought back to the state.

Ms. Rodell discussed slide 17, "Fiscal Year 2019 Performance as of June 30, 2019." She stated that many of the strategies were not designed to be daily strategies, but rather were intended for success over a period of time. She noted the difference in return between the one-year and three-year terms. She stated that the first benchmark was the Passive Index Benchmark.

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Co-Chair Foster wondered whether the passive or performance benchmarks would be most commonly used in the discussions.

Ms. Rodell responded that when Callan reported to the Board each quarter, there was a measurement against the pool of peers in fund performance. The report leaned more toward the performance benchmark, because of the recognition of the different strategies. She noted that the measurement against peers became challenging at times, because there might be 38 percent to public equities and someone else may have 60 percent to public equities. She stressed that there would be determination of recognizing that difference.

Ms. Rodell highlighted slide 18, "Fund Value and Returns in millions."

1977 Initial Legislation permitted an investment list that included only fixed income securities such as treasury bonds.

1983 Following changes to the statutory investment list, the Fund makes its first investment in the stock market, and later that year, indirectly held real estate.

1990 After the Legislature expands the statutory investment list, the Fund begins to invest in stock and bond markets outside the United States.

2005 The Legislature makes a significant change in how Permanent Fund investments are determined, by removing the allowed investment list from state law. The Trustees will make investment decisions under the guidelines of the prudent investor rule.

Representative LeBon surmised that the relationship in the companies would allow them to invest the dollars, but the APFC was not part of the decision making process. He wondered whether there was oversight of the approval or any role in the evaluation of the investment. He asserted that there was trust in the outcome of the third party partnership decision.

Ms. Rodell agreed. She explained that there was an agreement for the external managers to return expectations, so they made the investment decisions.

Representative LeBon wondered how much money was involved in each company.

Ms. Rodell replied that each company had \$100 million each for a total of \$200 million.

Representative LeBon asked if the companies were aware of their expected terms.

Ms. Rodell replied in the affirmative. It was clear that they had to fit into the mandate for private equity, so there were certain expectations of return objectives. The terms were clearly outlined, but the external investors could pick and choose the type of investment such as mariculture, telecom, alternative energy, etc.

Representative LeBon wondered whether the timeline on the investment could be very long.

Ms. Rodell responded in the affirmative.

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Ms. Rodell addressed slide 20, "Future Growth of the Fund - 10 Year Capital Markets Forecast":

- For planning purposes, APFC references both a current fiscal year and a 10-year forecast for the projected return of the Fund that is provided by our performance consultant, Callan Associates.
- It is understood that there will be a wide range of returns delivered by each asset class to the total Fund performance over any given time.
- Callan Associates projects a total return of 7 percent over the next 10-year period for the portfolio that APFC has constructed for the Fund.
- They also project an inflation rate of 2.25 percent over that same period, which brings the real return for the portfolio to 4.75 percent over the 10-year period from FY21- FY29.

Co-Chair Johnston asked about the Callan projection.

Ms. Rodell highlighted slide 21, "Callan's Capital Markets Forecast." She noted that no single asset class was expected to return double digits over the next ten-year period. She explained that the annualized standard deviation showed the difference around the returns. She looked at the cash equivalence, which was only expected to vary plus or minus 0.9 percent.

Co-Chair Johnston stated that she had a "pie-in-the-sky question." She asked for the number of years for the state to go from its current balance to \$100 billion.

Ms. Rodell responded that several caveats would have to be in place. She noted several other assumptions.

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Ms. Rodell pointed to slide 22, "Projections FY 20 excerpt from APFC's History and Projections as of December 31, 2019." She announced the low expected return of negative 0.52 percent. She explained that adding the effective

inflation would result in a total return of negative 0.52 percent. She shared that there was a tendency to use the mid, which was 6.61 percent, with inflation would be slightly above 5 percent. She shared that it was only a coincidence that both the total return and the statutory return were the same.

Ms. Rodell discussed slide 23, "History and Projections - Dec 31, 2019":

The Fund is projected to have a balance of \$84.6 Billion at the end of FY29.

This projection assumes the 7 percent total return over ten years, and

Adherence to rules-based deposits into and withdrawals from the Fund.

Royalty Deposits - AS 37.13.010 (a) (1) and (a) (2)

Constitutional minimum of 25 percent

Statutory 50 percent for leases after 1979

Inflation Proofing -AS 37.13.145 (c)

Annual CPI calculated on the Principal Amount

POMV - AS 37.13.140 (b) and AS 37.13.145 (e) and (f)

(e) The legislature may not appropriate from the earnings reserve account to the general fund a total amount that exceeds the amount available for appropriation under AS 37.13.140(b) in a fiscal year.

(f) The combined total of the transfer under (b) of this section and an appropriation under (e) of this section may not exceed the amount available for appropriation under AS 37.13.140(b).

Ms. Rodell looked at slide 24. She stated that the slide included the actual POMV calculations for both FY 20 and FY 21. She noted the yellow highlighted bars on slide 24. She explained that it showed the low, mid, and high cases, which were the rates of returns from the previous slide. She explained that the mid case expected that by the end of the fiscal year there would be a balance in the principal of the fund of approximately \$53.4 billion.

Ms. Rodell discussed slide 26, "The Alaska Constitution":

In 1976, Alaskans voted, 75,588 to 38,518, in favor to amend the Constitution of the State of Alaska and created the Alaska Permanent Fund.

Alaska Constitution Article IX, Section 15
Section 15. Alaska Permanent Fund

At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

Ms. Rodell addressed slide 27, "Renewable Resource." She shared that every year there was an attempt to create a graphic to show how the funds were interacting and how the money was moving through the fund. She noted that money came in, was invested, there were unrealized gains associated with the principal, money moves into the ERA from gains, expenses were paid, percent of market value was paid, and then reinvest whatever is left behind.

Representative Carpenter asked if inflation proofing was reflected in the renewable resources chart.

Ms. Rodell replied that it all happened subject to appropriation, which it was under "Available for Appropriation."

Representative Carpenter asked if the POMV was an automatic draw.

Ms. Rodell responded in the negative. She relayed that the POMV was an appropriation. She reviewed some of the legislative actions from the prior year.

Representative Carpenter wondered whether it was in the legislature's purview to appropriate the funds for inflation proofing.

Ms. Rodell replied in the affirmative.

Ms. Rodell highlighted slide 28, "Contributions to Principal in millions." She stated that it was the largest deposit in the history of the fund. She noted the influx of the royalties and the contributions by inflation proofing. She noted that in 2010, inflation was flat, so there was no inflation proofing. She remarked that in 2016, 2017, and 2018 there was no appropriation for inflation proofing. She thanked the legislature and governor for that contribution.

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Ms. Rodell discussed slide 29, "Values in billions - as of December 31, FY20 Q2." She announced that the ERA had \$7.5 billion in realized earnings, which was available for appropriation. She furthered that there was an unrealized gain of an additional \$2.7 billion. She shared that \$3.1 billion was set aside for the FY 21 POMV. She announced that the \$4 billion principal contribution was set aside, and it was required to come at the end of the fiscal year. She stated that inflation proofing was marked based on actual inflation.

Representative Josephson surmised that the entire money would not be deposited, because the inflation did not match the number.

Ms. Rodell responded in the affirmative, because the language in the budget bill required that APFC give an estimated number in that they move actual inflation. She noted that any money that was not moved over, stayed in the ERA.

Ms. Rodell looked at slide 30, "Return on Investment":

FY 19

Revenues: \$3,907,500,000

Operating/Investment Expenses: \$,600,000

Value Generated Per Day (based on 251 active trading days through FY19)

Total Fund: \$3.91 B / 251 = \$15.6 M per day

Statutory Net Income: \$3.3 B / 251 = \$13.1 M per day

Revenue Generation for the State of Alaska
ERA POMV Draw -

42 percent of total General Fund revenues in the FY 19 budget
47 percent of total General Fund revenues in the FY 20 budget.
52 percent of total General Fund revenues in the FY21 proposed budget.

Ms. Rodell addressed slide 31, "Reliance on Corporate Activity":

- SB 26, CH 16 SLA 18 established a POMV rules based structure for Fund withdrawals - a percentage of the average market value of the Fund for the first five of the preceding six fiscal years.
- Inflation Proofing AS 37.13.145 (c) protects the future value of the Principal by transferring a portion of the earnings to the Principal to maintain the long term sustainability of the Fund.
- APFC's operations and investment management of the Fund's assets are supported by the ERA.
- Agencies working on the collection of royalties also receive appropriations from the ERA.

Ms. Rodell discussed slide 33, "Board of Trustees":

Board of Trustees

As the fiduciaries, the Trustees have a duty to Alaskans in assuring that the Permanent Fund is managed and invested in a manner consistent with legislative findings in AS 37.13.020

- The Fund should provide a means of conserving a portion of the state's revenue from mineral resources to benefit all generations of Alaskans.
- The Fund's goal should be to maintain safety of principal while maximizing total return.
- The Fund should be used as a savings device managed to allow the maximum use of disposable income from the Fund for the purposes designated by law.

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Ms. Rodell addressed slide 34, "Resolution 18-04":

Sustainable Rules- Based Legal Framework For Fund Transfers

In providing guidance on rules-based withdrawals for the Fund and to help ensure the long-term sustainability of using Fund earnings for the benefit of all generations of Alaskans, the Board passed Resolution 18-04 at a special meeting on October 17, 2018.

This resolution affirms the importance of formulaic management of transfers into and out of the ERA to ensure sustainability and long-term growth of the Fund, by identifying four key principles:

Adherence - Sustainability - Inflation Proofing - Real Growth

Ms. Rodell looked at slide 35, "Evolving Role of the Fund":

Successful SWFs operate within a rules-based system that allows them to perform a combination of saving, stabilization, and income generation functions. In Alaska, the latter function has come into sharper focus, as the Fund income supports the State budget in an era of lower oil revenues.

Alaska has a robust system of constitutionally mandated savings, a long history of preserving and growing the real value of the fund, and a strong track record in investment management.

This paper proposes a number of reforms that will strengthen the stability and sustainability of Alaska's Permanent Fund:

- LESSON 1: MISSION CLARITY
- LESSON 2: THE IMPORTANCE OF RULES
- LESSON 3: SUCCESSFUL ENFORCEMENT OF SAVING RULES
- LESSON 4: DESIGNING A POMV SPENDING RULE
- LESSON 5: REFORMING THE ERA

Ms. Rodell discussed slide 36, "APFC's Strategic 5 Year Plan":

Priorities for FY 20-FY25:

1. Position the organization and Fund for implementation of annual POMV draw
2. Develop and implement comprehensive risk management for the organization
3. Integrate best-in-class investment management capabilities to maximize investment returns
4. Enhance talent and staff across APFC

Ms. Rodell looked at slide 38, "FY21 Budget":

APFC recognizes this evolution in the Fund's role to generate revenue to support state services and programs; as such, APFC looks to the State to ensure that resources are available to support APFC's investment and management needs for ongoing success in generating long-term returns.

Operating Budget FY21

Merit and Retention Adjustments \$720.6
Real Estate Manager Position \$257.5
Operational Reductions (\$1097.9)
Investment Management Fees (\$21,098.1)

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Representative Josephson mentioned the international conference on sovereign wealth funds in Juneau. He queried details on the visitors to that conference, and wondered what was learned during the conference.

Ms. Rodell confirmed that Juneau hosted more than 200 entities from around the world, representing sovereign wealth funds from Australia to Kuwait to Abu Dhabi; and some of the Lower 48 peers like New Mexico and Wyoming. The lessons that she took away from the conference was that there was a tremendous amount of interest in sovereign wealth funds. One of the largest questions had to do with how Alaska kept the fund intact.

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Co-Chair Johnston first wanted to build on what Ms. Rodell had stated. She mentioned the current year's budget that had more than a \$3 bill gap in the budget. The Department of Revenue (DOR) could not tell the committee how much was needed in a reserve account. She wondered how the state's capital market would change.

Ms. Rodell confirmed that there was a significant amount being asked of the Permanent Fund, and it caused investors to rethink investments. The DOR was tasked with cash management of the state. They could draw down the account as fast as they wanted. In the previous year, the department withdrew slowly. In the present year, the money was being drawn down much more quickly. She thought the question should be presented to the Department of Law and Legislative Legal Services.

Co-Chair Johnston noted that in the budget, there was a deficit of \$1.5 billion that would come out of the CBR. She remarked that there was a presentation from DOR that did not provide the cash amount needed

Representative Sullivan-Leonard called for a point of order. She suggested that Co-Chair Johnston was asking a policy question.

Co-Chair Johnston wondered whether Ms. Rodell would feel comfortable saying to the Board, "we maintain our current investment strategy." She remarked that, in 15 years, the fund could possibly grow to \$100 billion.

Ms. Rodell responded, "That is correct." For the past 2 years the legislature had placed restraints on itself. Therefore, there was not a recommendation for a different allocation for the ERA.

Co-Chair Johnston referred to the current year's budget and to slide 38. She stated that the money came out of the fund itself.

Ms. Rodell responded that the APFC was funded from the ERA.

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Co-Chair Foster surmised that Ms. Rodell did not want to violate the POMV. He also noted the mention of faster draws. He remarked that there were differing opinions of

the minimum that could be used from the CBR, ranging from \$1.4 billion to \$100 million. He felt that the current \$2 billion already showed impacts, because draws needed to be made sooner. Therefore, the impacts would be felt more significantly.

Ms. Rodell thought the question was good for the Treasury Division to understand the differences between FY 19 and FY 20, and why the speed may be different. She remarked that it was a new operational paradigm.

Co-Chair Foster noted the award for APFC.

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Representative Knopp thanked Co-Chair Foster for highlighting the accomplishment of the corporation. He looked at slide 31, and wondered whether the operations fund was all for internal operations managers.

Ms. Rodell responded that it was for everything operating out of Juneau. She shared that the investment management fees were fees paid to external managers outside of Juneau.

Representative Knopp wondered whether the appropriations were line items every year.

Ms. Rodell replied in the affirmative.

Representative LeBon spoke of the juggling of all of the pertinent accounts. He had the perception of the ERA was pretty well spread out evenly. He suggested that the CBR was used in an aggressive measure in recent years.

Ms. Rodell responded that he was correct. The CBR had a very specific investment expectation.

Representative LeBon felt that the CBR should be as large as possible to enhance the ERA.

Ms. Rodell suggested that it was one way to look at it.

Representative Knopp wondered whether the scenario with the goal of reaching \$100 billion in 15 years accounted for the market projection within 10 years.

Ms. Rodell responded that the APFC did not take into consideration individual years, but that it would be smoothed over time. She noted that there was some stressing of understanding of when actions might hit, and the impact of those actions. She explained that the 7 percent was a forecasted amount, and there were standard deviations around all the different asset classes.

Vice-Chair Ortiz referred to slide 20. He wanted to talk more about inflation and real rates of return. It appeared the rate of inflation was 2.5 percent expected, and he saw some things that might bump up inflation. He asked Ms. Rodell to comment.

Ms. Rodell turned to slide 17 which showed the calculation with actual inflation plus the 5 percent real target. She stated that the CPI plus 5 in FY 19 was 6.65 percent, subtracting the real return of 5 percent shows that inflation was 1.65 percent for FY 19. She noted that the inflation in the 43 years since inception showed 2.65 percent. She shared that the 2.25 percent was reasonable given the historical experience.

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Representative Josephson pointed to slide 20. He wondered whether the 4.75 percent was net of an expectation of inflation proofing by the state.

Ms. Rodell replied that the calculation of 2.25 percent for inflation 4.75 percent was how the entire pool would grow, so there was not a recognition in the number of what would move between accounts. She explained that the reason there was a request for an appropriation for inflation proofing was because the principal did not get any value back that may have been generated through inflation.

Representative Josephson felt that that the argument was a justification for PFD reform. He remarked that the PFD received the benefit of the separation. He stated that the corpus did not see a benefit from inflation.

Ms. Rodell agreed.

Representative Carpenter asked why the target was only 5 percent.

Ms. Rodell explained that the 5 percent was a real growth number that the board had had in place for over 15 years.

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Representative Carpenter noted the corporation's vision to deliver sustainable returns. He queried the risk of the legislature's action or inaction that would make it difficult to achieve the vision to deliver sustained returns.

Ms. Rodell responded that the legislature should keep its expectation a 5 percent return of the POMV. She felt that keeping the certainty of liability management was crucial to the ongoing success. She stressed the continuing support of resources, because the authority was needed to ensure that the money could be in the best place to get the sustained returns.

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Co-Chair Johnston asked about a slide reflecting the annual growth of the fund.

Ms. Rodell turned to slide 18 to the growth of the fund bar chart.

Representative Tilton asked about the language for inflation proofing was included in the previous year's budget.

Ms. Rodell responded in the affirmative. The legislative intent language was to forward fund inflation of 8 years, but expectation was about half of the amount of time. The board encouraged the legislature to continue the practice of inflation proofing the fund.

Representative Tilton asked a clarifying question.

Co-Chair Foster asked Ms. Rodell if she considered the \$4 billion to be inflation proofing.

Ms. Rodell reiterated that the position of the trustees that it was not forward funding inflation.

Representative Josephson tended to differ to the trustees. He suggested that there was no difference in the treatment of the funding. He asked how to measure inflation proofing.

Ms. Rodell responded that the concern of the trustees was that in 4 years no one would remember the reason for inflation proofing, so would be difficult to get new legislature to do inflation proofing in the future.

Representative Carpenter clarified that the legislature had the responsibility to inflation proof the fund, because there was not automatic inflation proofing.

Ms. Rodell responded that Representative Carpenter was correct. She added that the board had recommended constitutionalizing inflation proofing.

Representative Carpenter had asked Ms. Rodell what the legislature needed to do in order for the corporation to do its job. He suggested a trust-worthy mechanism for inflation to occur each year.

Ms. Rodell agreed.

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Co-Chair Johnston stressed that the discussion of inflation proofing was really a discussion of a transfer the ERA to the corpus.

Ms. Rodell agreed.

Co-Chair Johnston stated that the corpus was protected by the constitution.

Ms. Rodell agreed.

Co-Chair Johnston stated that the ERA was not protected by the constitution.

Ms. Rodell responded, "That is correct."

Vice-Chair Ortiz asked if the board had ever weighed in on simply combining the funds, and limiting the use to the POMV of one fund.

Ms. Rodell reported that the board had weighed in on it but had only recommended a constitutional amendment.

Vice-Chair Ortiz queried Ms. Rodell's personal view on combining the two accounts.

Ms. Rodell responded that no matter the structure, there must be an accounting of the nominal amount that must be spent. She felt that combining both would still result in all of the income of the fund being subject to appropriation.

Co-Chair Foster thought it was time to move to the presentation to Judiciary. He asked if Ms. Rodell had any closing comments.

Ms. Rodell reiterated that there was a great amount of information available on the website. She thanked members for the opportunity to present.

^FY 21 DEPARTMENT BUDGET OVERVIEW: JUDICIARY

[2:59:15 PM](#)

DOUG WOOLIVER, DEPUTY ADMINISTRATIVE DIRECTOR, ALASKA COURT SYSTEM, was before the committee to review its budget. He discussed the presentation, "House Finance Committee Alaska Court System Overview" (copy on file).

Mr. Wooliver turned to slide 1, "Mission Statement":

The mission of the Alaska Court System is to provide an accessible and impartial forum for the just resolution of all cases that come before it, and to decide such cases in accordance with the law, expeditiously and with integrity. which noted the people the court system served.

Mr. Wooliver highlighted slide 2. "Alaskans Served in 2019":

- 120,239 new cases filed (trial and appellate)
- 6,562 contacts through the Family Law Self Help Center
- 24,888 jurors reported for service
- 9,896 law library patrons

- 633,393 citizens passed through security screening
- 6,397,763 visits to the court's website
- 1,767,105 Court View searches
- 20,401 online payments made
- 425 therapeutic court participants
- Thousands of on-line court forms accessed or downloaded

Mr. Wooliver turned to slide 3 reflecting the court system's total share of the State of Alaska's government spending. He noted that there was a change from 2.2 percent to 2.36 percent.

Mr. Wooliver moved to slide 4 showing that Judiciary's funding primarily came via general fund dollars. He remarked the commissions and councils.

Mr. Wooliver turned to slide 5. He noted Therapeutic Court appropriation, which was a separate appropriation. He explained that the legislature created that appropriation, so there could be a total line to keep the funding within the Therapeutic Court.

[3:04:02 PM](#)

Mr. Wooliver explained slide 6, "GF Budget Changes FY16 - FY20":

FY16 - (\$3,430,400)	(3.1 percent)*
FY17 - (\$3,805,000)	(3.5 percent)
FY18 - (\$3,671,800)	(3.5 percent)**
FY19 - \$606,300	.6 percent
FY20 - \$2,932,200	2.8 percent

* The FY16 cut was offset by a 2.5 percent salary increase resulting in a net reduction of \$1,427,600.

** The FY18 cut was offset by increased healthcare costs resulting in a net reduction of \$1,821,400.

Mr. Wooliver looked at slide 7, "Examples of Cost-Savings Measures":

Between FY16 and FY19, Deleted 44 PFT, 14 PPT, and 2 Temporary Positions for a total of 60 Deleted Positions

Salary Schedules Capped at "R" Step □ Holding Positions Vacant to Generate Savings

Friday Afternoon Closures

E-Distribution Project

Expanded Use of Videoconferencing

[3:06:51 PM](#)

Representative Sullivan-Leonard mentioned previous discussions about Friday afternoon closures. She also mentioned that employees were currently mandated to work 40 hours.

Mr. Wooliver clarified that the court system was not subject to a 40 hour work week.

Co-Chair Johnston asked if the Court System vacancy rate had changed much.

Mr. Wooliver indicated the vacancy rate was about 7 percent.

Co-Chair Johnston asked if the holding open of positions was a new practice.

Mr. Wooliver responded that the Court System had every Judicial position filled. He explained that In order not to run out of money, the Court System had begun the practice of holding the positions open for 45 days rather than 30 days.

Co-Chair Johnston wondered about the expanded use of video conferencing. She asked if the Court System was monitoring the effectiveness of video conferencing.

Mr. Wooliver responded that teleconferencing primarily benefited other agencies such as Department of Public Safety. He provided an example. He was not sure of a total cost savings as a result of video conferencing. He also explained that under the American Disabilities Act the Court was required to provide sign language interpretation, which could be done with little notice using video conferencing.

Co-Chair Johnston thought the legislature had expanded the Court System's video conferencing abilities in the previous year's budget.

Mr. Wooliver replied in the affirmative. He concurred that it was a great benefit.

[3:14:02 PM](#)

Vice-Chair Ortiz referred to the first line of the cost-savings measures on slide 7. He queried the opportunity costs to the public and the workforce, related to losing 60 positions within the system.

Mr. Wooliver replied that "it hurts. There was always a downside to being short-staff. He suggested, however, when running lean, made for more efficiencies.

Representative Carpenter was curious to know how many of the court hearing for pre-trials were occurring via video conferencing.

Mr. Wooliver asked for clarification.

Representative Carpenter clarified.

Mr. Wooliver agreed to provide that information.

Mr. Wooliver moved to slide 8, " Operating Budget Outcomes (GF) ":

\$1,674,600 3 percent Salary Increase

\$393,800 Facility O and M Increases

\$(334,700) Appellate Court Budget Veto

\$1,733,700 FY20 Operating Budget Change

Representative Josephson asked about the veto for Therapeutic Courts.

Mr. Wooliver responded that the increment requests were also vetoed by the governor. He included the veto to show the net difference from the year prior.

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Mr. Wooliver turned to slide 9 showing the FY 21 operating budget increases in general funds funding. He read the items on the slide and provided background information for each item:

FY21 Operating Budget Increases (GF)

\$ 578,700 1 percent Salary Increase
\$ 334,700 Restore Appellate Court Budget
\$ 364,500 Appellate Court Resources
\$ 250,000 Court Business on Friday PM
\$ 220,500 Facility O and M Increases
\$ 130,000 Deputy Therapeutic Courts Coordinator
\$ 290,000 GF Funding for Mat-Su Therapeutic Courts
\$ 113,900 Executive Branch Services \$2,282,300
Total FY21 Alaska Court System GF Request

Mr. Wooliver continued to explain the items on slide 9, "FY21 Operating Budget Increases (GF)":

\$578,700 1 percent Salary Increase
\$334,700 Restore Appellate Court Budget
\$364,500 Appellate Court Resources
\$250,000 Court Business on Friday PM
\$220,500 Facility O and M Increases
\$130,000 Deputy Therapeutic Courts Coordinator
\$290,000 GF Funding for Mat-Su Therapeutic Courts
\$113,900 Executive Branch Services
\$2,282,300 Total FY21 Alaska Court System GF Request

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Mr. Wooliver stated that the other part of the request was tied to legislation - \$230,000 for pro tem judges to work through the backlog. The first choice was SB 55 introduced by Senator David Wilson for a fourth judge - if the bill passed the request would go away. He highlighted an

increment for court business on Friday afternoons - \$250,000. There had always been some vacancies and the court had been able to do some things on Friday afternoons that it would like to continue. He provided examples including grand juries, arraignments, and other. The courts would like to include the money in its base budget to continue the work. There were numerous benefits to being closed on Friday afternoons.

Mr. Wooliver continued to review increments on slide 9. He highlighted the facility increases. He also noted the executive branch services costs and the costs to the Alaska State Museum Achieves for the storage of court documents.

[3:30:33 PM](#)

Representative Carpenter asked who decided whether a case was ready to be briefed.

Mr. Wooliver explained that the cases were not ready for the court, because the attorney had not yet prepared the brief. He stressed that the period could be up to two years.

Representative Carpenter felt that the delay was a problem, but commented that it was a conversation for another day.

Mr. Wooliver agreed that the delay was a huge problem.

Representative Sullivan-Leonard returned to the issue of Friday afternoon closures. She wondered about the overtime hours. She wondered whether those employees were required to work 37.5 hours or 40 hours per week employees.

Mr. Wooliver replied that those employees worked 36 hours per week. noted that when the court moved to the closures of Friday afternoon, they received a 4 percent reduction in hours and a 4 percent reduction in pay. He agreed to provide information about the total overtime costs.

Representative Sullivan-Leonard commended Judiciary for its ability to adjust to the reductions with efficiency.

Mr. Wooliver mentioned the FY 20 supplemental request, which were increased fees from FY 20.

Mr. Wooliver moved to slide 11, "Criminal Case Filing Increases":

FY17 Felonies - 6,198
FY19 Felonies - 7,321 (Up 18.1 percent)

FY17 Misdemeanors - 19,030
FY19 Misdemeanors - 25,288 (Up 32.9 percent)

[3:34:33 PM](#)

Mr. Wooliver included slide 12 reflecting a useful summary of the current finances of the Alaska Court System.

Co-Chair Foster reviewed the schedule for the following Monday.

HB 205 was HEARD and HELD in committee for further consideration.

HB 206 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[3:35:22 PM](#)

The meeting was adjourned at 3:35 p.m.