

HOUSE FINANCE COMMITTEE  
March 10, 2020  
1:33 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:33 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

Representative Jennifer Johnston; Representative Chuck Kopp; Grace Irvine, Staff, Representative Chuck Kopp; Representative Adam Wool, Sponsor.

SUMMARY

HB 300 PERM FUND: APPROPS FR EARNINGS RESERVE

HB 300 was HEARD and HELD in committee for further consideration.

HB 306 PFD/GF APPROPS; EARNINGS RESERVE

HB 306 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the meeting agenda.

#hb306

HOUSE BILL NO. 306

"An Act relating to deposits into the dividend fund and income of and appropriations from the earnings reserve account; establishing a permanent fund dividend task force; and providing for an effective date."

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REPRESENTATIVE JENNIFER JOHNSTON, shared that the bill built on the work done by the Permanent Fund Working Group and continued a conversation seeking a sustainable Permanent Fund for future generations. She shared that it had been an honor to serve as co-chair of the working group with Senator Click Bishop. The group was comprised of four members of the House and four members of the Senate and included House Finance Committee members Representative Merrick and Representative Wool. She reported that while the working group had not come to an agreement on the ideal Permanent Fund Dividend (PFD) amount, they all agreed the Permanent Fund needed to grow and be protected from effects of inflation.

Co-Chair Johnston elaborated that the majority of the working group agreed on the need to live within the framework of SB 26 [Permanent Fund legislation passed in 2018] or the percent of market value (POMV). She referenced slide 5 of a presentation to the committee given by Department of Revenue Deputy Commissioner Mike Barnhill on the afternoon of March 9 [titled "HB 259 Supplemental Permanent Fund Dividend"(copy on file)]. She read the third bullet point on slide 5: "Structured (i.e., statutory) solution to the PFD is important to reducing annual fiscal uncertainty." She relayed that HB 306 started the conversation on how to address the structure and move away from the uncertainty that had existed for a number of years.

Co-Chair Johnston relayed that the Permanent Fund Working Group had modeled many different scenarios, none of which had completely eliminated the deficit. The scenario proposed in HB 306 had come the closest [to eliminating the

deficit] at the time. She highlighted that the current fiscal outlook for world markets had changed dramatically over the past couple of days. She looked forward to the committee's conversations that would account for the current market and looking into the future. She stated that like recent conversations on the House floor regarding HCR 13, common ground was most often found on the topic of ensuring the Permanent Fund was protected for future generations.

Co-Chair Foster handed the gavel to Co-Chair Johnston.

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REPRESENTATIVE CHUCK KOPP, introduced a PowerPoint presentation titled "HB 306: A Path Forward" (copy on file). He began on slide 2 and expressed gratitude to the Permanent Fund Working Group. He detailed that the group's work over the interim had brought them to the current point and showed that the legislature could reach consensus on an important topic like protecting the Permanent Fund. He moved to shared goals for Alaska on slide 3 including healthy and safe communities, a thriving private sector, an efficient government that upheld the law, and a strong, growing Permanent Fund.

Representative Kopp moved to slide 4 titled "Why Protect the Permanent Fund." He detailed that historic investments in the fund had allowed it to grow from the initial \$734,000 deposit to \$68 billion as of several days earlier. He noted an update was likely needed. He elaborated that there had been recent discussion on the House floor about the growth of the fund, a sustainable draw, fiscal solvency, and the state's creditworthiness. He noted that the fund could be ephemeral at times, but it could be helpful to discuss the ways it had played into the state's shared history, outside of paying a PFD. He believed it was an opportunity to celebrate the fund's success, recognizing that the Permanent Fund would continue to have a major impact on Alaskan life.

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Representative Kopp addressed goals for Alaska and how the Permanent Fund supported the goals on slide 5. He believed the outcomes listed on the slide were useful whenever concerns were vocalized about the POMV being a raid or

theft. He expounded that fund earnings had helped the state respond to the opioid epidemic, the rise in crime, the 2018 earthquake, and the 2019 wildfire season. He continued that earnings had allowed Alaskans' tax burden to remain low despite the drop in oil prices. Additionally, the POMV had acted as the most effective spending cap in decades. He stated that the accomplishments further underscored the need to keep the fund strong.

Representative Kopp moved to slide 6 and addressed how the state had been funding its services. The slide began with 1912 through statehood and present day and highlighted how the fund's earnings had become integral to running the state over time. In 1912, funding had come from industry taxes and an income tax. By 1977, significant oil revenue began to flow into Alaska. The income tax had been repealed in 1980 and in 2013 when oil prices dropped dramatically, the state had responded by cutting billions in the operating budget. The state's need to address the mathematical tension in its budget with the dividend and the POMV was continuing.

Representative Kopp moved to slide 7 and discussed that deposits into the Permanent Fund had allowed the fund to grow. He detailed that deposits into the fund including a combination of mineral royalties and non-royalty legislative appropriations plus inflation proofing, had caused the fund to grow to roughly \$66.7 billion. He pointed out that previous legislatures had understood the importance of growing the fund in the long-term, which had been done at the expense of short-term benefits through appropriations.

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Representative Kopp reviewed how the POMV worked on slide 8. He explained that the Alaska Permanent Fund Corporation (APFC) calculated the total value of the Permanent Fund (principal and earnings) and then calculated 5.25 percent of the fund's value over the first five of the last 6 years. He noted the draw was set at 5.25 percent for FY 19 through FY 21 and 5 percent thereafter. The result became the maximum amount the state could spend from the Earnings Reserve Account (ERA). Lastly, the legislature appropriated the specified amount to pay for dividends and state services.

Representative Kopp turned to slide 9 and discussed how to keep the Permanent Fund strong. He stated that in addition to the appropriations made to the fund's principal, there was more that could be done to support the fund's strength. Other ways to keep the fund strong included supporting and abiding by the POMV structure, paying out an affordable dividend, and supporting APFC's work to recruit and retain great investors. He acknowledged Co-Chair Johnston for her work helping APFC with its ability to recruit and retain some of the best investors in the country, which Alaska had benefitted from.

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Representative Kopp turned to slide 10 titled "Why Act Now?" He believed the legislature had kicked the can down the road long enough. He clarified he was not laying the blame on anyone. He continued that the state's savings were nearly exhausted and with oil at such low prices, oil could not be expected to bail the state out of the \$1.5 billion structural deficit. He highlighted that any new revenues would not solve the deficit in the current year. He noted that oil was currently around \$34 per barrel and the forecast indicated prices heading into the \$20s.

Representative Kopp reviewed a slide addressing the need to change state statutes on slide 11. He explained there was a mathematical tension between revenues and costs. The change in statute was needed due to the gap illustrated on the slide. The slide showed the revenue picture paired with the state's expense picture in the governor's FY 21 budget and the size of the gap necessary to pay the statutory dividend. He continued that the gap caused unnecessary stress and uncertainty across the state. He noted that attempts to reduce the gap with \$1.5 billion in cuts and cost shifting had not worked well. He detailed that legislators had heard from all of their communities on the devastating effects of absorbing the costs or having their share of petroleum property tax or fisheries tax clawed back to the state (actions taken to pay the whole dividend). He pointed out that if the gap occurred again in the following year, the state would have no savings to fill it. He expressed gratitude to Mr. Barnhill for underscoring the issue in his presentation the previous day.

Representative Kopp shared that according to Fitch ratings (one of the three largest credit rating agencies in the

U.S. other than Moody's and Standard and Poor's), the state's desire to pay a full statutorily calculated PFD elevated the state's fixed cost burden and reduced its ability to respond to future economic weakness, as revenue growth was expected to be modest. He stated the Coronavirus and downward spiral of oil were contributing to a state of future economic weakness. He noted that Fitch had made the statement five or six months back.

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Representative Kopp turned to a graph showing the UGF revenue/budget status quo on slide 12. The graph illustrated the amount left unknown if no change was made in the current year. The top dotted line represented a budget with a statutory PFD and the gap between the budget, less dividends. He noted the gap was significant and \$1.5 billion would be required to balance the budget. He highlighted that in the following year, the legislature could spend the remaining \$500 million in savings and still have a deficit exceeding \$1 billion. He reported that under the status quo, the annual gap would exceed the state's savings and would result in a crippling tax burden.

Representative Kopp moved to slide 13 and addressed the two elements of the HB 306 plan, including an 80/20 split of the POMV and the review of the plan's effectiveness by the Permanent Fund Task Force within six years. He explained that the timeframe had been selected because it had taken since 2014 to present day to evaluate the situation. He detailed that under the 80/20 split, of the \$3.1 billion in FY 21, 80 percent would go to fund state obligations (education, public safety, transportation) and 20 percent went to dividends.

Representative Sullivan-Leonard looked at slide 13. She was trying to determine how the 80/20 formula had been decided upon. She believed the task force had received many different proposals.

Co-Chair Johnston clarified that the Permanent Fund Working Group was different than the Permanent Fund Task Force that would review the plan's effectiveness in six years under the proposed legislation.

Representative Sullivan-Leonard asked if the 80/20 POMV split was a result of the working group or had been formed independently.

Representative Kopp answered that much of the working group's effort was incorporated in the bill. He elaborated that the 80/20 split was a starting point for the conversation as laid out by Co-Chair Johnston. He shared that the committee would be presented with different modeling scenarios - it was possible to look at the split in many different ways. He explained that the bill began with the 80/20 split because it worked the best for Alaska out of the scenarios that had been available at the time of the bill's introduction, which the modeling would show.

Representative Sullivan-Leonard noted that the proposal brought forward by her Mat-Su representative was very different from the bill's proposal. She was trying to figure out who the author of the proposal was. She asked if Co-Chair Johnston had proposed the 80/20 split in the bill.

Co-Chair Johnston that she had been a co-chair on the Permanent Fund Working Group, and the 80/20 split had been one of the scenarios the group had modeled. She elaborated that it was one of the few scenarios that provided a glidepath of sustainability.

Representative Sullivan-Leonard asked who had brought the proposal forward.

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Co-Chair Johnston answered that the House Rules Committee had brought the bill forward via herself as the vice-chair and the committee chair Representative Kopp.

Representative Sullivan-Leonard shared that she was trying to determine who brought the proposal forward. She asked if it had been Senator Bishop or another group. She noted there had been people tasked to work on different modeling.

Co-Chair Johnston answered that she, Representative Kopp, and the majority of the House Rules Committee had brought the proposal forward. She detailed that two things had been brought forward with the Permanent Fund Working Group: 1) the need to maintain the structured draw and 2) agreement on the modeling presented to the group. She added that it

was possible to use numbers from the past week in modeling, but it may not contain all of the nuances currently occurring in the world markets.

Representative Kopp added that the bill was informed by the working group but authored by himself with the assistance of Co-Chair Johnston. He added that he was proud to be the author of the legislation. He turned to slide 15 and detailed that under the bill, a Permanent Fund Task Force would review and evaluate the Permanent Fund and PFD after six years. The task force would include three House members, three Senate members, and an appointee by the governor. He elaborated that the task force was charged with giving Alaskans a performance review for HB 306 and the Permanent Fund. The task force would consider the effectiveness of the plan and determine whether the Permanent Fund continued to be sustainable. The goal was for the task force to evaluate whether a change was necessary (the same thing legislators had been evaluating since 2014). He stated that 2026 had been chosen in order for legislators to have a full two-year legislature to consider the recommendations (the 35th legislature).

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Representative Kopp turned to a graph on slide 16 and discussed the impact of the plan on UGF revenue/budget. He noted the graph had been produced by LFD to illustrate the plan's performance under the FY 21 budget. He relayed that LFD would provide testimony to the committee regarding the bill and could address impacts on a more detailed level. He pointed to the significant difference between the budget gap under the status quo compared to the bill. He pointed out that while a modest draw from savings would need to occur, the gap would be far more easily filled with reductions or revenues than the \$1.5 billion gap under the status quo. He continued that state savings also had a much longer life under the proposed scenario.

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Representative Kopp advanced to slide 17 and spoke to the impacts of state savings. The slide included a bar chart showing the ERA growth under HB 306. He highlighted that under the bill proposal the ERA grew and the CBR provided a glidepath of about six years to allow the legislature to look at new revenues/spending reductions.

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Representative Kopp looked at slide 18 that illustrated the difference between the traditional statutory PFD and the PFD under the proposed scenario in HB 306. Under the legislation, the PFD was roughly \$900. He turned to slide 19 to show how the amount compared to historical PFDs. He pointed to the black line reflecting the PFD (in nominal dollars) and noted the volatility over time. The slide also showed the average dividend over time.

Representative Kopp moved to slide 20 and highlighted that the average past PFD amount was \$1,170 and under the legislation, the 2020 PFD would be \$900. He remarked that it was popular to use the numbers based on the statutory PFD formula, but he believed it was more realistic to compare the amount to PFDs previously given to Alaskans. He noted there was a \$270 difference between the number in the bill and the historical average.

Representative Kopp turned to slide 21 titled "HB 306 Moves Us Forward." He detailed that the bill provided a path toward being able to plan for the state's future instead of living in a crisis mode. He elaborated that the bill would unlock the ability for the state to improve its credit ratings, stabilize PFD amounts, stabilize the budget process, and ultimately assist with gaining a true understanding of the budget picture. He stated that the legislature had begun every budget process in near bedlam since the drop in oil prices. He stressed that nobody won when every year was met with the possibility of a government shutdown, mass layoffs, or new taxes. The bill would provide a built-in baseline to work from. Additionally, the bill would provide a set of shared facts about the budget outlook. He clarified that the bill did not take anything off the table except the overspending of the ERA and eroding the future of the state's children.

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Representative Kopp turned to decisions to be made on slide 22 including spending priorities, sustainability of the PFD and Permanent Fund, and other revenue options. He stated that the options accurately reflected the current fiscal options. He questioned whether the legislature was willing to continue the budget debate year after year. He wondered if the legislature was interested in raising taxes to pay

for dividends, which would become necessary as soon as 2021 due to minimal savings. Alternatively, he wondered if the legislature was willing to make difficult decisions at present that would allow for the preservation of the Permanent Fund and PFD and would provide economic stability and community security. The question was what the highest and best use of the fund was. He asked if the fund was to be used as an ATM when the state needed money and whether it was considered as a legacy to be left to future Alaskans.

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Co-Chair Johnston recognized that Representative Knopp had joined the meeting.

Vice-Chair Ortiz thanked the sponsor for bringing the bill forward that started a much needed conversation. He asked if there had been any consultation with economists on how a smaller PFD may impact the state's economy.

Representative Kopp answered that he was well aware of reports that had been authored and given to the legislature showing what a reduced dividend amount could mean across Alaska. He noted that some of the reports did not include increased state services. There were many small communities in Alaska and the numbers of people collectively accounted for a very small percent of the state services received; however, in order to pay a full PFD, it would be necessary to wipe out the services the small communities were receiving. He confirmed that he had considered the information that had already been put on the record in terms of what the dividend meant to the economy.

Co-Chair Johnston noted Vice-Chair Ortiz's an ISER report. She shared that the report had been done before the massive growth in the Permanent Fund and PFD had occurred. She believed it was something that was forgotten.

Representative LeBon asked if the bill intended for the legislature to fund the PFD first with 20 percent of the POMV and all other funding decisions would follow.

Representative Kopp answered that the formula would provide a baseline to start from. He explained that the legislature would know the money available for state services and what would go to the dividend. He reasoned that the absence of a

resolution on the PFD and trying to reconcile the plummeting energy market and oil prices seemed to be what kept the legislature in session for five to six months of the year. Structurally, the bill would tackle the most difficult thing - the PFD - first, which would free up bandwidth to address the entire budget and determine the true deficit. He elaborated that the \$1.5 billion deficit was only related to the statutory PFD. He clarified that the deficit was tied into state agency spending; however, the dividend was nearly twice as large as the largest state agency. The PFD was a significant cost factor, which was addressed by the bill.

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Representative LeBon considered the perfect economic storm taking place that was associated with the decline in oil prices and production. He asked if a \$900 PFD and a state income tax was a realistic possibility given the current economic climate.

Representative Kopp answered that the state could be in trouble in any scenario where it was paying a dividend without adequate funding. He elaborated that there was no safe formula that could predict what was currently taking place in the market. He referenced the current PFD calculation by APFC that was based on an average of five of the previous six years. He remarked that the current year would likely shape up to be tough. He highlighted the difficulty in coming up with a formula that could accurately predict the current market. He relayed that if a dividend was paid base on the state's ability to pay, it would have to be done with the current legislative appropriation approach.

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Representative LeBon could see the day coming where the legislature may be faced with overdrawing the POMV if it was locked into using 20 percent of the 5 percent POMV draw [for the PFD] and/or incorporating a state income tax to fund the PFD. He believed if the PFD was paid first, as under the bill proposal, it would be necessary to figure out a way to make that happen. He furthered that the PFD would be put at the tip of the mountain if paying it first meant the possibility of instituting a tax, overdrawing the ERA, or cutting agency spending.

Co-Chair Johnston added that model scenarios would be presented the following day and committee members would have the opportunity to ask more in depth questions.

Representative Carpenter looked at slides 12 and 16 that showed revenue versus spending projections. He pointed to a handout in members' packets generated by the Legislative Finance Division that included multiple charts (copy on file). He asked what forecast had been used to generate the revenue bars on slides 12 and 16.

Representative Kopp answered that the graphs used the forecast that had been available when the information had been compiled about two weeks earlier. He noted that oil prices had been higher and in the mid-\$50s.

Representative Carpenter noted that one of the slides showed the fall forecast had been used. He asked for the percent increase used over time in the solid black line reflecting the budget less dividends.

Representative Kopp deferred to his staff.

GRACE IRVINE, STAFF, REPRESENTATIVE CHUCK KOPP, relayed that LFD would present to the committee the following day. She recognized that the slides compiled as recently as one week earlier no longer reflected the reality of the budget and updated forecasts. She deferred the questions until the LFD presentation.

Representative Carpenter referenced the LFD handout in members' packets that listed the annual increase as the rate of inflation at 2.25 percent. He noted that he was looking at his own chart and believed revenue for FY 21 would be about \$700 million. He remarked that the change was drastic from the current projection.

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Co-Chair Johnston agreed that there was a new day coming.

Representative Carpenter referenced discussion on the need to pay a PFD the state could afford. He pointed out that the same logic applied to state spending. He highlighted the need for affordable state spending levels. He believed

the discussion about new revenue and eating up a PFD needed to include a discussion about spending levels.

Representative Kopp thanked Representative Carpenter for his comments. He recognized that Representative Carpenter and Representative LeBon had both touched on an important issue. He highlighted that the bill was only one important piece of a sustainable fiscal plan that involved controlling state spending and looking at new revenues.

HB 306 was HEARD and HELD in committee for further consideration.

#hb300

HOUSE BILL NO. 300

"An Act relating to deposits into the dividend fund and income of and appropriations from the earnings reserve account; relating to the community assistance program; and providing for an effective date."

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REPRESENTATIVE ADAM WOOL, SPONSOR, thanked the previous presenter for laying down some groundwork pertaining to the current fiscal situation. He noted that the House Finance Committee had heard many presentations about the percent of market value (POMV) draw and the situation that needed resolution. He remarked that in his six years with the legislature, many months had been spent trying to solve the dilemma of balancing revenues with expenditures. He pointed out that the PFD was very much a part of the issue.

Representative Wool provided a PowerPoint presentation titled "HB 300 - POMV Allocation: A Sustainable Solution for Alaska" (copy on file). He noted that graphs would be reviewed for the committee by the Legislative Finance Division (LFD) the following day. He relayed that the bill was a conversation starter and was perhaps a novel way to look at the Permanent Fund Dividend (PFD) and the POMV draw. He began on slide 2 titled "The 2018 Passage of SB26 Largely Solved the Budget Crisis." He highlighted that the POMV structure provided a stable funding stream to support state government and had been a historic compromise. He characterized the passage of SB 26 as a paradigm shift for the state. He detailed that the state had been in a tight position where revenue had declined very quickly, and the

state had been faced with the need to make some cuts. He elaborated that the legislature had made some severe cuts to the capital and operating budgets over the first few years. He reviewed that the PFD had first been vetoed by former Governor Bill Walker to 50 percent of the statutory formula and the legislature had passed the same amount the next year. He expounded that since that time, the legislature had selected \$1,600 as number it believed was affordable in the past couple of years. He noted that the first couple of years the number had been \$1,000 (50 percent of the formula at the time).

Representative Wool discussed that the state had gone from an economy paid for with oil (oil had paid for the state budget for many years) and the Permanent Fund paid for the PFD. When oil had declined, the Permanent Fund had been tapped to pay for the state budget with a 5.25 percent structured draw (scheduled to drop to 5 percent in 2022). He continued to the third bullet point on slide 3 and stated that the bill [SB 26] passed by the Senate had been stripped down - it had not included a new PFD formula and had not removed the old PFD statute. He referenced cries for the legislature to follow the law and pay a full statutory PFD. He pointed out that the formula called for a \$3,000 PFD, an amount that had never been paid. He noted a \$1,200 supplemental heating check had been distributed during the Palin Administration [in 2008] when oil prices had been particularly high. The high oil prices had helped the state budget but hurt people trying to heat their homes. He elaborated that the state had worked to get money to residents in different ways, particularly in rural Alaska where heating oil was extremely expensive. He noted the cost had exceeded \$4 per gallon in Interior Alaska and heating bills had skyrocketed. He added that the supplemental check had not been paid the following year.

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Representative Wool continued to discuss slide 2. He remarked that people had been happy to receive the supplemental energy check and had understood when it had not been provided the following year. He reiterated that SB 26 did not delete the old [PFD] formula and did not include a new one. He highlighted that the existing formula was not being followed and legislators on both sides of the aisle and the executive branch were all calling for a new formula.

Representative Wool moved to slide 3 read the first two bullet points:

- The amount available for the general fund equals the total POMV draw less whatever is appropriated for Permanent Fund Dividends
- For as long as the PFD remains subject to intense annual debate, the state cannot depend on a predictable revenue stream

Representative Wool spoke to the need for revenue predictability. He noted that the past several weeks had thrown the issue into turmoil. He detailed that oil revenue had been steadily declining for decades; the oil price had fluctuated over time and production had been declining. He elaborated that the price had declined in 2014 and had recently dropped again. He discussed that the volatile revenue source could not be relied upon. He stated that the POMV was a much more stable revenue source.

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Representative Wool moved to assumptions on slide 4 titled "There is no consensus on the size of the dividend...but large dividends equal large budget deficits." He highlighted that the governor's budget proposal of \$4.6 billion was largely what the House had passed. The fall 2019 revenue forecast was \$2 billion, but he believed it would be updated soon. He noted that the committee had been told that the forecast for the following year would be lower than originally thought and with recent events it would be considerably lower. Currently, there was no new revenue. There was a motor fuel tax and other small taxes and revenue sources in the works, but there was no broad-based income tax or sales tax.

Representative Wool addressed possible options on slide 4. He began with the governor's plan to pay a \$3,000 PFD, which would cost about \$1.9 billion to fully implement. The second option he reviewed was a 50/50 plan that had been discussed over the past year, which would result in a \$2,400 PFD and a deficit of \$1.1 billion. The third option was a 67/33 plan, which was roughly what had been used in the past several years and would add to the deficit. The surplus plan was the last option on the slide. He detailed that at one point the surplus plan had resulted in a \$700

PFD, which was no longer the case. He stated there were problems with the specific plan.

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Representative Wool turned to slide 5 and detailed that his proposal in HB 300 was an allocation model that combined different ideas. He noted that he did not invent the model in its entirety. He believed the Anchorage mayor had mentioned doing a 45/45/10 POMV split going to the government, PFD, and communities, respectively. The proposal was a slight variation with prioritizing other items in addition to government and the PFD. He reviewed the proposal on slide 5:

FY2021 POMV will be \$3,095 million

- 40% designated for K-12 education (\$1,238 million, fully funds BSA)
- 10% designated for the University of Alaska (\$310 million; restores FY2019 funding level)
- 10% designated for capital projects (doubles recent amounts)
- 10% designated for a Community Dividend (expands the Community Assistance" Program and replaces current programs)
- The remaining 30% split 50/50
  - o 15% to the General Fund
  - o 15% to Permanent Fund Dividends (\$464 million, about \$725 each)

Representative Wool elaborated on slide 5. The first bullet point identified 40 percent for education (approximately \$1.2 billion in FY 21, which was approximately what had been funded in the current year). The bill would set education funding as a percentage of the POMV in statute. Under the legislation, the University of Alaska would receive 10 percent of the POMV (\$310 million in FY 21, which was close to the \$302 million funded in FY 20). He stated that both education items were in the constitution and he believed they should be supported. He reasoned that putting the items in the formula guaranteed that the two entities would not have to wonder what funding they would receive on an annual basis. He stressed that the two items were very important in growing Alaska's future. He relayed that other states that had faced tough times had doubled

down on their investment in education. He added that investing in education primary and higher education would keep young people in Alaska.

Representative Wool continued to address the allocation of the POMV on slide 5. The bill would allocate 10 percent of the POMV draw to capital projects, which would double recent amounts to approximately \$300 million. He expounded that in recent years capital budgets had been funded at the bare minimum of about \$150 million to receive the federal match. He remarked that legislators repeatedly heard about the need for a capital budget to increase jobs for talented workers who were leaving the state for employment in other locations. Additionally, there was a need to build and maintain the state's infrastructure (e.g. roads and bridges). He highlighted that deferred maintenance was a major problem - the University alone had \$1 billion in deferred maintenance.

Representative Wool detailed that the remaining 30 percent of the POMV draw would be split 50/50 between the General Fund and the PFD. He recognized that the amount was lower than the 80/20 split proposed in the previous presentation [on HB 306]; however, the community dividend would offset a portion of the cut.

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Representative Wool advanced to an illustration on slide 10 showing how funds would be allocated. He detailed that 40 percent of the POMV would go to education. He listed other items that would receive funding including the University, the community dividend, and 30 percent divided 50/50 between the General Fund and PFD. He shared that he had done different variations on ways to split the 30 percent (e.g. 20/10). He believed it was important to look at the community dividend portion.

Representative Wool returned to slide 6 and stated that the problem with a surplus dividend was that no one knew what it would be and there was fear there would be more spending, which would make the PFD smaller. He stated that the need for a statutory PFD was agreed upon. He relayed that a 20 percent POMV (a 20/10 split instead of a 15/15 split) would result in a PFD of approximately \$966 (similar to the 80/20 split in HB 306).

Representative Wool moved to slide 7 and relayed that some form of the community dividend had been in place since 1969. He detailed that the formula had been changed several times. The current formula distributed \$30 million per year through the Community Assistance Program. The bill would increase the amount to \$300 million (10 percent of the total POMV draw). He noted there were variations he would explore in the analysis the following day that would change the number to 5 percent. The bill would increase the borough base from \$300,000 to \$1 million, the city base from \$75,000 to \$250,000, and the base for unincorporated communities from \$25,000 to \$83,333. He explained that the calculation multiplied the original base by thirty-three and one-third. The left over funding would be divided between all state residents to determine a per capita number (capped at \$1,200 per capital in each community).

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Representative Wool turned to slide 8 and reviewed benefits of a community dividend. He detailed that the community dividend would bring the funds closer to the individual. He explained that the money would not be distributed as a check in residents' pockets but would be money in the community. He believed that when the PFD had been created, former Governor Jay Hammond had expressed desire to take the money out of the state's hands and put it in the hands of the people because the people knew how to spend the money best. He believed it had worked for a while and people had been spending money from the dividend since its inception.

Representative Wool explained that the bill would not eliminate a dividend; it would bring money into community coffers instead of state coffers. He highlighted various communities including Anchorage, Aniak, Fairbanks, and Bethel and explained that all communities would receive a substantial amount of money. He furthered that community members could solicit community leaders with their needs and priorities instead of people coming to the legislature with a list of needs. He stated the community leaders would be responsive and that community members knew what they needed best. Additionally, there would be a higher per person distribution for smaller communities.

Representative Wool explained that if Anchorage received a base of \$1 million, the per capita would be a little over \$300 (in addition to the base). He elaborated that the amount would be slightly over \$300 once the \$1 million was factored in. He furthered that dividing \$1 million by 300,000 residents resulted in a little over \$3 per person, which would be added to the per capita of \$300. Whereas, for smaller communities that would receive between \$83,000 to \$250,000, the money would be divided between residents in addition to the \$300. He elaborated that for smaller communities it meant residents would receive \$900 to \$1,200 in a community dividend and a PFD of \$700, which was close to \$2,000 per person.

Representative Wool clarified that the \$1,200 per person went to the community, not to individuals' bank accounts. He explained that residents could benefit from the funding. For example, a community could install energy devices or buy fuel in bulk and sell it at a discount to community members. He reiterated that a community dividend would bring the money closer to communities and rural/smaller communities would receive more per capita. He highlighted that it somewhat offset the problem of cutting the PFD - cutting the PFD had an adverse impact on small communities that had smaller economies, less cash, and fewer jobs. He stated that the community dividend would provide more autonomy to communities and would give local residents a voice on how the money was spent.

[2:22:10 PM](#)

Representative Wool turned to slide 9 and discussed budget impacts of the bill. He relayed that HB 300 would increase the current budget. He detailed that the bill would add to the capital budget, the University budget, and a substantial amount to community assistance. He highlighted areas that could potentially be decreased in the budget. He detailed that school bond debt could be passed to communities because communities would be receiving money [via a community dividend]. He noted he had a complete table of every community and had included an excerpt showing examples later in the presentation [slide 14].

Representative Wool continued to list potential decreases in the budget including miscellaneous municipal and university debt support and a municipal portion of the Public Employees' Retirement System (PERS)/Teachers'

Retirement System (TRS). He relayed that he had not gone into any of the PERS/TRS calculations and he understood that communities strongly advocated against any change. He considered that if Anchorage received \$90 million, perhaps it could afford to spend more on PERS/TRS. He identified community block grants as a budget item that could be addressed at the community level. He reasoned that communities knew what they needed best and would have the funds to provide things like opioid treatment and support homeless shelters. He pointed to public safety as another area that could be decreased because more money would be available for communities to provide their own public safety services. For example, communities could hire a village police officer.

Representative Wool identified transportation maintenance as an area of the budget that could potentially be decreased. He referenced a budget amendment that had been offered in committee on the Quinhagak airport. The community could not afford to maintain its airport. He explained that under the legislation, Quinhagak would receive \$450,000 per year. He explained that some of the money could be used by communities to maintain local rural airports. He highlighted that the state would save about \$600 million if it did not pay a \$1,600 PFD.

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Representative Tilton asked how the bill accounted for the state's growing Department of Health and Social Services (DHSS) budget. She wondered how the DHSS budget would be administered and taken care of.

Representative Wool agreed that DHSS reflected a growing portion of the budget. The remaining 15 percent of the POMV in addition to oil revenue would still be available for the other budget items. He had not allocated to DHSS separately. He agreed on its importance and relayed that it would be paid out of the budget as under the current process.

Representative Tilton asked if the scenario would mean communities would play a bigger role in providing DHSS services.

Representative Wool answered that he had not looked at the particular option, but it was not off the table. He stated

it would depend on how the numbers panned out. He would not expect Medicaid funding to go through local communities, but there were other health costs including treatment centers and other. He noted that a sobering center had recently opened in Fairbanks. He relayed that some of the health and behavioral health items could be funded with the community dividend.

[2:26:02 PM](#)

Vice-Chair Ortiz thanked the sponsor for bringing forward the proposal, which he believed contained merit. He believed the 40 percent going to education would act as a spending cap. He asked for verification the bill would not allocate any other funding sources to education other than the 40 percent [of the POMV draw].

Representative Wool answered that he was not thinking of the amount as a cap, but as a floor. He supposed that more funding could be provided, not less. He noted that the education community would know what the funding would be [under the 40 percent allocation]. He relayed that 40 percent was slightly less than the current funding; however, it would increase over time. He remarked that the POMV was a five-year rolling average; therefore, even if there was a bad month or year the impact would not be as strong (unless there were multiple bad years). He informed committee members that the upcoming graph would show a steady increase, which he believed would alleviate much of state educators' anxiety. He believed the same was true for some of the other entities.

Representative Tilton spoke to the increase of community involvement under the bill. She asked how the funds going to communities and individuals would be administered. She explained that there were administrative fees associated with distributing community assistance funds.

Representative Wool answered that the bill would be modeled on the existing community assistance program. The funds would be distributed in the same way as they were currently, but in amplified amounts.

[2:28:55 PM](#)

Representative Knopp highlighted that all of the fiscal notes talked about designated general funds. He noted that

the [state] constitution prohibited designated funds. He supposed they could probably refer to it as an appropriation if they used the method in the legislation. He reasoned that things would be fine if revenue grew over time but considered what would happen in the next five or six years if the markets were down and revenue dropped. He noted that the proposal did not include the DHSS budget, which was the largest budget item. He provided a scenario where there was an additional \$2 billion in revenue outside of the POMV draw. He asked if there would be enough money left to cover the state's obligations to bond debt, other formula driven programs, and DHSS. He wondered if there would be willingness to live with the structure if the POMV draw declined in several years. He wondered how the proposal would be implemented and adhered to over time when it was not possible to bind the hands of future legislatures.

Representative Wool replied that it was a valid point. He referenced the POMV draw implemented under SB 26 [Permanent Fund legislation passed in 2018] that the legislature had been adhering to for since its implementation [in 2018]. He hoped the legislature would continue adhering to the legislation. He remarked that the legislature was not currently adhering to the PFD formula. He would like to have HB 300 adhered to and would like to adhere to SB 26. He hoped the legislature would adhere to the bill. He supposed that if things got really bad, they could opt to not fund the capital budget.

Representative Knopp considered that the bill dedicated the POMV draw, which he kind of liked. He was concerned about a time when the \$3 billion started to drop and the legislature was no longer happy with funding the University was receiving. He reasoned the legislature would have to adjust the structure under the bill or to other funds. He considered what the trickle-down effect would be.

[2:31:55 PM](#)

Representative Wool stated that much of the bill was intended as a conversation starter. He had another model that he had not included in the presentation. He thought the structure proposed in the bill may be a tool to "get us on the road" that could perhaps be revisited in five years. He had another model that lowered the percentage of the POMV designated for the capital budget and the community

dividend to 5 percent each to give more flexibility depending on the market.

Representative Wool turned to a bar chart on slide 11 showing the PFD amount from FY 21 to FY 29 using 15 percent of the POMV draw. The PFD was calculated at \$724 in FY 21 and almost \$900 in FY 29. He moved to a chart on slide 12 showing education funding from FY 21 to FY 29 using 40 percent of the POMV draw. Education funding would be \$1.2 billion in FY 21 and increase up to \$1.5 billion over ten years. Capital projects (including the University) at 10 percent of the POMV draw were illustrated in a bar chart on slide 13, beginning at \$309 million in FY 21 and increasing to \$381 million by FY 29.

[2:33:25 PM](#)

Representative Wool moved to proposed community dividends for various communities on slide 14. The slide included some larger communities with the \$1 million base and other communities with the \$250,000 and \$83,000 bases. He used Anchorage as an example and pointed out that the current FY 20 assistance was \$4.5 million, while under the bill the assistance would increase to \$96 million or \$328 per person. He considered that Anchorage could do a lot with the substantial sum annually, including work on the Port of Anchorage and payment towards bond debt reimbursement. He highlighted that the community dividend would be \$362 per person in Juneau. He pointed to the small communities of Nulato and Gulkana that would hit the cap at \$1,200 per capita. He detailed that St. Mary's would receive the \$83,000 base, resulting in \$765 per person. He explained that the structure would help with the rural/urban divide where a larger city would receive less per person and a smaller community would get more per person (not more total, but more per person). He reasoned that despite a proposed cut to the PFD, the local communities would benefit and have the ability to help their residents.

Representative Wool shared there would be more modeling the following day. He reported that the fall forecast had been used, which would be updated in the near future. He noted there would be a model where the percentage of the POMV designated for the capital budget and the community dividend was lowered to 5 percent each. He elaborated that the change would bring capital funding to \$150 million (closer to the current expenditure) and the community

dividend would also receive \$150 million, which was still a substantial amount of money. He stated that the funding would help offset a PFD cut in rural Alaska.

Co-Chair Johnston asked the sponsor to model what the state should be paying in statute for school bond debt and capital program for rural villages the following day.

Representative Wool agreed to provide the information.

HB 300 was HEARD and HELD in committee for further consideration.

Co-Chair Johnston reviewed the schedule for the rest of the week. She shared that public testimony on HB 300 and HB 306 would take place on Thursday afternoon.

#

ADJOURNMENT

[2:38:45 PM](#)

The meeting was adjourned at 2:38 p.m.