

ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE

April 25, 2019

3:03 p.m.

MEMBERS PRESENT

Representative Zack Fields, Co-Chair
Representative Jonathan Kreiss-Tomkins, Co-Chair
Representative Gabrielle LeDoux
Representative Andi Story
Representative Adam Wool
Representative Sarah Vance
Representative Laddie Shaw

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Jennifer Johnston

COMMITTEE CALENDAR

HOUSE BILL NO. 139

"An Act providing an exemption from the state procurement code for the acquisition of investment-related services for assets managed by the Board of Trustees of the Alaska Permanent Fund Corporation."

- HEARD & HELD

HOUSE BILL NO. 132

"An Act relating to the Alaska permanent fund; relating to the earnings reserve account; relating to the permanent fund dividend; relating to deposits into the permanent fund; relating to appropriations to the dividend fund and general fund; and providing for an effective date."

- HEARD & HELD

HOUSE JOINT RESOLUTION NO. 18

Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund and to appropriations from the Alaska permanent fund.

- HEARD & HELD

HOUSE JOINT RESOLUTION NO. 6

Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund and the permanent fund dividend.

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 139

SHORT TITLE: AK PERM. FUND CORP. PROCUREMENT EXEMPTION

SPONSOR(S): REPRESENTATIVE(S) JOHNSTON

04/17/19 (H) READ THE FIRST TIME - REFERRALS
04/17/19 (H) STA, FIN
04/25/19 (H) STA AT 3:00 PM GRUENBERG 120

BILL: HB 132

SHORT TITLE: PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS

SPONSOR(S): REPRESENTATIVE(S) WOOL

04/15/19 (H) READ THE FIRST TIME - REFERRALS
04/15/19 (H) STA, FIN
04/25/19 (H) STA AT 3:00 PM GRUENBERG 120

BILL: HJR 18

SHORT TITLE: CONST AM: PERMANENT FUND; POMV;EARNINGS

SPONSOR(S): REPRESENTATIVE(S) KREISS-TOMKINS

04/24/19 (H) READ THE FIRST TIME - REFERRALS
04/24/19 (H) STA, JUD, FIN
04/25/19 (H) STA AT 3:00 PM GRUENBERG 120

BILL: HJR 6

SHORT TITLE: CONST. AM.:PERMANENT FUND & DIVIDEND

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

02/20/19 (H) READ THE FIRST TIME - REFERRALS
02/20/19 (H) STA, JUD, FIN
04/25/19 (H) STA AT 3:00 PM GRUENBERG 120

WITNESS REGISTER

ROBERT ERVINE, Staff
Representative Jennifer Johnston

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 139 on behalf of Representative Johnston, prime sponsor.

ANGELA RODELL, Executive Director
Alaska Permanent Fund Corporation (APFC)
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 139.

NATHANIEL GRABMAN, Staff
Representative Adam Wool
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 132 on behalf of Representative Wool, prime sponsor, with the use of a PowerPoint presentation.

BRUCE TANGEMAN, Commissioner
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: Introduced HJR 6 on behalf of the House Rules Standing Committee, sponsor, by request of the governor.

WILLIAM MILKS, Senior Assistant Attorney General
Legislation & Regulations Section
Civil Division (Juneau)
Department of Law (DOL)
Juneau, Alaska

POSITION STATEMENT: Provided a sectional analysis for HJR 6, on behalf of the House Rules Standing Committee, sponsor, by request of the governor.

MIKE BARNHILL, Director of Policy
Office of Management & Budget (OMB)
Office of the Governor
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HJR 6.

ACTION NARRATIVE

[3:03:08 PM](#)

CO-CHAIR FIELDS called the House State Affairs Standing Committee meeting to order at 3:03 p.m. Representatives LeDoux,

Story, Wool, Vance, Shaw, Kreiss-Tomkins, and Fields were present at the call to order. Also present was Representative Johnston.

HB 139-AK PERM. FUND CORP. PROCUREMENT EXEMPTION

[3:04:06 PM](#)

CO-CHAIR FIELDS announced that the first order of business would be HOUSE BILL NO. 139, "An Act providing an exemption from the state procurement code for the acquisition of investment-related services for assets managed by the Board of Trustees of the Alaska Permanent Fund Corporation."

[3:04:23 PM](#)

ROBERT ERVINE, Staff, Representative Jennifer Johnston, Alaska State Legislature, on behalf of Representative Johnston, prime sponsor of HB 139, paraphrased from the sponsor statement, which read as follows [original punctuation provided]:

House Bill 139 adds an exemption to the state's procurement code that would let the Alaska Permanent Fund Corporation (APFC) be exempt from the code when evaluating and managing assets.

In a recent effort to cut costs and increase revenue margins, pressure has been placed on the APFC to bring more of their fund management in-house. With markets changing quickly, it is important that they have the tools to quickly evaluate and manage investments.

Under existing law, APFC is exempt from the state's procurement code when it acquires income producing assets or delegates its investment authority. However, they must comply with the state's procurement code when evaluating and managing the assets in which it invests. This bill will allow them to perform due diligence in a timely manner.

This exemption will improve APFC's ability to identify subject matter experts, gather professional background information and negotiate contracts in under 10 days, compared to the minimum 54 days required under the state's procurement code. The change proposed in this bill will allow an expeditious timeline that closely

aligns with the pace of the markets in which APFC works.

Allowing APFC the exemption in HB 139 will give them the tools they need to meet the added demands that Alaskans are placing on the fund.

[3:05:36 PM](#)

REPRESENTATIVE STORY asked for the number of investments that would be exempt from the procurement code under HB 139.

[3:06:37 PM](#)

ANGELA RODELL, Executive Director, Alaska Permanent Fund Corporation (APFC), responded that APFC expects HB 139 to affect about eight to ten decisions annually.

REPRESENTATIVE STORY asked whether money would be saved through the procedures proposed under HB 139.

MS. RODELL answered that it is her belief that there will be some cost savings. The APFC would be able to acquire subject matter experts itself instead of relying on third party contractors to acquire subject matter experts and, thereby, generating cost savings to the state and to the fund.

REPRESENTATIVE VANCE asked for an explanation of the current procurement code under which APFC operates.

MS. RODELL relayed that APFC is under the full state procurement code, and the only exemption is for the investment decisions. For example, APFC is not subject to the procurement code to buy a bond or to hire a money manager.

REPRESENTATIVE VANCE asked for the length of time in the current procurement process.

MS. RODELL answered that the length of time is about 50 to 60 days, including notifications and appeals.

REPRESENTATIVE VANCE asked whether HB 139 would waive that process, so that someone could be hired within a few days.

MS. RODELL responded, "That is correct."

REPRESENTATIVE VANCE commented that she understands the need to respond quickly to investment opportunities. She asked why there is need for the proposed change considering the fund is performing well.

MS. RODELL offered that if APFC can streamline the process, use staff resources to directly acquire the needed expertise, and not rely on third parties in order to avoid the procurement process, it can be much more opportunistic and timely in accessing investments and, therefore, get more investment return.

REPRESENTATIVE VANCE questioned how procedures under HB 139 would prevent the "good old boy" type of hiring of which many people are suspicious.

MS. RODELL answered that the APFC trustees and staff take their fiduciary responsibility very seriously. The proposed exemption is meant to confirm the underlying thesis of an investment, not give a "good old boy" a subject matter waiver or steer business in any one direction. The APFC has instituted processes to prevent such from occurring, and the fund results demonstrate the efficacy of those processes.

REPRESENTATIVE VANCE asked for an elaboration of the requirements for hiring investors.

MS. RODELL explained that the process for hiring managers and investment advisors is in the APFC Board of Trustees investment policy. The policy is a living document that the board reviews annually to ensure that the policy continues to reflect the procedures and the goals of the fund. Within that policy are manager selection rules and requirements; the APFC is required to use the board's general consultant to assist with the selection process; and a process for alternative manager searches is outlined in the policy. She offered that a series of questionnaires are used for the selection process. The process is like the [state] procurement process absent the time periods and state contracting requirements.

[3:13:16 PM](#)

REPRESENTATIVE LEDOUX stated that she was under the impression that the proposed legislation would allow APFC to retain third party people, which currently must be accomplished under the procurement code. She asked for confirmation that Ms. Rodell's testimony is that APFC currently relies on a consulting firm to

make the hires, and HB 139 would allow APFC to hire the [subject matter experts] directly.

MS. RODELL replied that currently APFC can hire a fiduciary - someone with specific responsibility to manage fund money. The proposed legislation would expand APFC's hiring authority to include subject matter experts relevant to a specific investment idea. For example, APFC wants to directly invest in a biotechnology idea and not use a fiduciary, but because it lacks the underlying expertise [in the subject matter], it would like to consult with a medical person. Currently APFC must go through the state procurement process to find that professional service. She stated that APFC is asking for a procurement code exemption to acquire that professional service.

REPRESENTATIVE LEDOUX asked whether the state's procurement code, not personnel code, would be used to hire state employees.

MS. RODELL responded that APFC does not use the procurement code to hire people. She explained that she is referring to professional service contracts with subject matter experts.

REPRESENTATIVE LEDOUX asked for confirmation that the experts would not be hired as employees but retained as contractors.

MS. RODELL answered, "That is correct." She stated that the experts would be hired to opine on a specific subject matter in their fields of expertise, such as engineering, biotechnology, technology, or software. The APFC would ask the experts to use their expertise to opine on the business validity of a potential investment.

REPRESENTATIVE LEDOUX mentioned that she is confused by the term "hire." She offered that MS. Rodell is referring to retaining an expert as a third-party contractor and not an employee of APFC.

MS. RODELL concurred.

[3:16:33 PM](#)

REPRESENTATIVE WOOL expressed that currently APFC can spend up to \$100,000 without being subject to the state procurement code; therefore, an expert could be paid up to that amount.

MS. RODELL agreed that the state procurement code has limited exception for under \$100,000.

REPRESENTATIVE WOOL asked whether an expert opinion costing over \$100,000 is common and asked for confirmation that the amount is the cost for an opinion and not a percentage of the investment or return.

MS. RODELL responded, "That is correct." She added that the cost depends on the time spent reviewing all the information and writing an opinion. She said that part of the challenge is that the shorter the time frame available for the review, the higher the cost.

REPRESENTATIVE WOOL offered, "\$100,000 a week, I guess that's acceptable."

MS. RODELL mentioned that at times there are teams of reviewers; therefore, the procurement may involve the work of an entire group.

REPRESENTATIVE WOOL asked for confirmation that an investment by APFC is not subject to the procurement code.

MS. RODELL answered, "That is correct."

REPRESENTATIVE WOOL asked whether a real estate investment, such as purchasing a skyscraper, can be made without adhering to the procurement code.

MS. RODELL answered, "That is correct."

REPRESENTATIVE WOOL offered that the procurement code needs to be followed when getting advice on the building being intact, if the advice is \$150,000.

MS. RODELL answered, "Exactly."

REPRESENTATIVE WOOL suggested that the cost of an opinion on a major skyscraper is substantial.

MS. RODELL replied, "It can be."

[3:19:43 PM](#)

CO-CHAIR FIELDS asked for an example of how obtaining the expert opinion on investments has produced significant returns for the corporation and how giving APFC the ability to contract with experts would provide the opportunity for more returns.

MS. RODELL stated that APFC invested \$189 million in JUNO Therapeutics between 2012-2013. The investment opportunity came directly to APFC from the group forming JUNO Therapeutics; it was a fast-track investment. The APFC was unable to procure a medical expert opinion in the timeframe available for evaluating the investment. She said that the investment was offered as an IPO (initial public offering) in 2017 and has netted the permanent fund about \$1.8 billion. The investment was extremely lucrative and is the type of investment that APFC wants to be able to pursue using one of its investment managers and not a third-party.

REPRESENTATIVE LEDOUX asked whether using a fiduciary means using another investment manager, and therefore, paying more for the service.

MS. RODELL responded, "That is correct."

[3:22:11 PM](#)

CO-CHAIR KREISS-TOMKINS asked for further explanation of the two different types of third parties - the third party that APFC is currently using versus the third party it would use under the proposed legislation.

MS. RODELL explained that currently APFC uses an investment manager third party; under HB 139 it would use a non-fiduciary third party - one that is not an investment manager.

CO-CHAIR KREISS-TOMKINS asked if currently that [third party] investment manager in turn procures the services of the subject matter expert; therefore, APFC is paying the investment manager as a middleman to obtain the expertise.

MS. RODELL responded, "That is correct." She added that the investment manager then invests some of his/her own money into the investment alongside of APFC money.

CO-CHAIR KREISS-TOMKINS offered that under HB 139, the corporation could cut the middle entities out of the equation.

MS. RODELL answered, "That is correct."

REPRESENTATIVE WOOL offered that currently APFC is using two middlemen - the fiduciary and the subject matter expert; the proposed legislation would eliminate the fiduciary and APFC

could hire the expert directly. He asked whether the intent of the proposed legislation is to save money by not paying the middleman. He also asked whether the procurement code is followed for hiring the fiduciary.

MS. RODELL confirmed that eliminating the [third-party] investment manager does save the corporation the cost of the manager's fees. The proposed legislation also enables APFC to react in a timely manner to investment opportunities.

REPRESENTATIVE WOOL asked whether APFC pays the investment manager an hourly rate or a percentage of the investment.

MS. RODELL confirmed that APFC pays a management fee that is a percentage of the investment. She added that the investment manager usually receives a percentage of any profit-sharing over and above attaining certain performance indicators.

REPRESENTATIVE WOOL suggested that APFC enters a fiscal relationship with the investment managers for a period; under HB 139, APFC would hire the expert directly, pay him/her for the service, make the investment, and "move on."

MS. RODELL replied, "Correct."

[3:26:23 PM](#)

REPRESENTATIVE LEDOUX offered that the proposed legislation would save APFC a great deal of money. She asked Ms. Rodell to give an example in which APFC would have liked to have retained a [subject matter expert] directly but had to retain an intermediary fiduciary. She asked what amount of money was paid to the fiduciary.

MS. RODELL referred to the previous example involving JUNO Therapeutics, in which APFC invested \$189 million and netted about \$1.8 billion after selling the stock. She stated that if a fiduciary was involved in the transaction, he/she would have gotten a \$1 million fee and 20 percent of the profit-sharing. The amount going to the fiduciary would be in the millions. She said that APFC is pleased with its return on that investment. She maintained, however, that decrements, such as the \$1 million fee, cannot be seen in a \$65 billion budget - it "doesn't move the needle"; therefore, discussing fee savings is a challenge for APFC. She emphasized that fee savings is important to the corporation, and the corporation is always looking for ways to

create better results for the people of Alaska through its investment activity.

[3:30:00 PM](#)

REPRESENTATIVE VANCE asked whether APFC could provide the legislature a report next year on the savings under HB 139 if passed.

MS. RODELL responded that she believes that tracking that information would be possible, especially if the request is made in advance.

REPRESENTATIVE WOOL offered that HB 139 would not only save the corporation money but extend to it nimbleness, freedom, control, and flexibility.

MS. RODELL concurred.

CO-CHAIR FIELDS stated that HB 139 would be held over.

[3:31:25 PM](#)

The committee took an at-ease from 3:31 p.m. to 3:33 p.m.

HB 132-PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS

[3:32:41 PM](#)

CO-CHAIR FIELDS announced that the next order of business would be HOUSE BILL NO. 132, "An Act relating to the Alaska permanent fund; relating to the earnings reserve account; relating to the permanent fund dividend; relating to deposits into the permanent fund; relating to appropriations to the dividend fund and general fund; and providing for an effective date."

[3:33:30 PM](#)

NATHANIEL GRABMAN, Staff, Representative Adam Wool, Alaska State Legislature, on behalf of Representative Wool, prime sponsor of HB 132, paraphrased from the sponsor statement, which read as follows [original punctuation provided]:

HB 132 aims to maintain annual, oil-derived payments to Alaskans while reducing the uncertainty in government funding inherent in the status quo. This

will be accomplished by calculating the PFD based on a percentage of oil revenues.

The Alaska Permanent Fund (PF) is the repository for much of the state's mineral wealth, with most of that wealth originally derived from oil. Every year, funds are deposited into the corpus of the PF, and are then invested in stocks, bonds, real estate, and other financial instruments. Over time, this principal produces earnings from which Alaskans receive an annual Permanent Fund Dividend (PFD) check. Given the original source of the corpus funds, many Alaskans view the PFD as their share of the state's oil money.

Historically, PFDs have been based on a 5-year rolling average of PF earnings. Gubernatorial vetoes and lower legislative appropriation have reduced the amount of the PFD from their statutory value in each of the last three years. Barring a change, it appears likely that the value of the PFD will continue to be debated annually by the legislature, with the proportion of the Percentage of Market Value (POMV) allocated to government services and the PFD constantly in flux.

If passed, HB 132 would ensure steady funding for government services by leaving the POMV draw reserved for a specific purpose rather than split. Residents would continue to be paid, with the value of their annual royalty checks now tied directly to the state's mineral (oil) revenue. The value of the dividend would fluctuate along with the price and production of oil. This uncertainty is better sustained in the dividend check, as certainty and predictability are of paramount importance for planning government spending into the future.

If the price or volume of oil production increased, so too would our checks.

If oil taxes increased, so would the dividend.

If new natural gas resources came online, dividends would rise.

Increased dividends would also offset the negative effects (higher fuel, utilities, and shipping prices) caused when oil prices are high.

MR. GRABMAN added that there is not a strong correlation between oil revenue each year and the historic PFD; in fact, they appear to be inversely correlated. The general trend has been that when the price of oil increases, the PFD decreases, and vice versa.

MR. GRABMAN stated that with passage of Senate Bill 26 [during the Thirtieth Alaska State Legislature, 2017-2018, signed into law 6/27/18], a percentage of POMV draw is the state law; the proportion of the POMV that will be devoted to the PFD this year has already been the source of much discussion in both bodies of the legislature, and such discussions appear likely to continue on an annual basis moving forward.

MR. GRABMAN relayed that although the principal of the permanent fund is primarily derived from oil wealth, the performance of the Permanent Fund Earnings Reserve ("earnings reserve"), and by extension, the value of the PFD, have arguably tracked more closely with stock market fluctuations than with the price or production of oil. He added that in the same way the taxpayers are more likely to pay attention to government spending than non-taxpayers. Tying the PFD directly to Alaska's oil revenue will ensure that residents remain informed and engaged with respect to the state's oil prices, production, and policies.

[3:36:20 PM](#)

MR. GRABMAN referred to a PowerPoint presentation, entitled "HB 132: A New Approach to the PFD." Beginning with slide 2, entitled "What does HB 132 accomplish?", Mr. Grabman reviewed the following points:

Stabilize government funding by dedicating the POMV draw for state services.

Link the Dividend directly to oil revenues.

Reduce need for recurrent legislative battle over PFD amount.

REPRESENTATIVE WOOL explained that the state has been "breaking the law" in its method of paying out the PFD in the last several years; the statutory formula prescribes one method, and the state has been following another method. He offered that the proposed legislation would eliminate the old statute to avoid the state breaking the law, and a new statute would be enacted -

one that would be more easily followed. He added that the "battle" that Mr. Grabman mentioned is the battle over the amount of the dividend; that battle never used to happen because the state followed the statute. He said that the extreme decline in revenue has caused fiscal realignment; HB 132 would attempt to eliminate that annual conflict.

REPRESENTATIVE SHAW asked if the proposed legislation would give the state the flexibility to utilize the POMV as needed, separating the government services and the dividend.

REPRESENTATIVE WOOL replied that HB 132 would retain the POMV draw from the permanent fund at the current 5.25 percent, and that draw would be transferred, in full, to GF.

REPRESENTATIVE LEDOUX questioned, "Since the legislature has seen fit to not follow the law with respect to the current statute, what makes you think that ... we would be any better when it comes to following the formula that you've set out?"

REPRESENTATIVE WOOL answered that the current situation came about when [Governor Bill Walker] vetoed half of the PFD amount in the budget [during the Twenty-Ninth Alaska State Legislature, 2015-2016], and it continued during following two years [the Thirtieth Alaska State Legislature, 2017-2018] when the legislature appropriated less than the statutory formula. He offered that this occurred because the state could not afford the larger payment. He further stated that a \$3,000 statutory PFD would total about \$1.9 billion. If the revenue from oil and POMV comes to \$5 billion, and almost \$2 billion is spent on PFD checks, Alaskans question, "Is that the best way to spend the limited revenue that we have?"

REPRESENTATIVE WOOL continued by saying that HB 132 would link the PFD amount to the revenue: when oil revenue is down, the amount of the PFD would be lower; when oil revenue is up, the amount of the PFD would be higher. He offered that by statutory formula, the PFD amount is high, but the oil revenue to the state is not high, and this has caused the problems that the state is currently experiencing.

[3:41:10 PM](#)

MR. GRABMAN continued with slide 3, entitled "Current flow of oil money and related funds." He explained that there two types of oil - leases that pre-date 1980 and leases that start in 1980. He referred the committee to Alaska Statutes (AS)

37.13.010(a) for greater detail. He stated that 25 percent of leases, royalties, royalty sales, bonuses, net profit shares, and federal mineral revenue from the "old" oil is put into the corpus; 50 percent of those revenue sources from the "new" oil is put into the corpus. He pointed out that the Alaska State Constitution, Article IX, Section 15, states that at least 25 percent of this revenue must be transferred to the corpus. He said that the remainder of the revenue, including all the production tax, currently flows into GF. Once the money is in the corpus, it is invested; the investment earnings flow into the earnings reserve, which by statute is inflation-proofed; and due to Senate Bill 26, there is a POMV draw, which goes into GF. He stated, "And we then have a long, bruising, drawn-out argument discussion to figure out what the PFD is going to be."

MR. GRABMAN referred to slide 4, entitled "flow of oil money and related funds under HB 132," and said that under the proposed legislation, there would no longer be a distinction between old oil and new oil; 25 percent of leases, royalties, royalty sales, bonuses, net profit shares, federal mineral revenue would go into the corpus; the money flows within the permanent fund would be the same as described under the current system; and the question would be, What about the other 75 percent of those six categories from all the oil? He explained that under HB 132, 33 percent of the six revenue sources and production tax or the amount needed to distribute an \$1,800 dividend would go to GF where it would be appropriated to the PFD fund and paid out as dividends. He said that if there is not enough revenue to afford an \$1,800 dividend, then the remaining 42 percent of the six revenue sources would go into GF along with 67 percent of the production tax.

MR. GRABMAN moved on to slide 5, entitled "HB 132 vs Actual PFD," and stated that the chart on the slide shows the actual PFDs since inception compared with what they would have been if HB 132 had been enacted throughout that time. He pointed out in the chart that the trends of the two lines are often in opposition; the amount of oil revenue has not correlated with the historical amounts of the PFD.

MR. GRABMAN referred to slide 6, entitled "HB 132 (capped and uncapped PFD) vs. Actual PFD", which adds the trend line for an uncapped PFD under the scenario of HB 132 having been enacted. He pointed out that uncapped PFDs would have been like the actual PFDs most years; however, there would have been massive disparities between the two for a few years. There would have been \$5,000 PFDs in the years that oil revenue spiked. Having

the cap allows the state to "put more money away" in funds such as the Constitutional Budget Reserve (CBR) and other funds to save for the future.

[3:45:24 PM](#)

MR. GRABMAN moved on to slide 7, entitled "PFD Values, HB 132 vs. Proposed POMV Splits," and explained that the POMV splits came from the Legislative Finance Agency and the statutory PFD came from the Office of Management & Budget (OMB). He pointed out the wide disparity between the trend lines in the graph.

MR. GRABMAN turned to slide 8, entitled "FY202: HB 132 PFD check values, determined by per barrel oil cost and production levels." He explained that the chart demonstrates what the dividend amounts would be under HB 132 at different per-barrel oil costs. The chart compares the official production projections with the values determined for different production levels by linear extrapolation - at 90 percent of projected production, 95 percent, 105 percent, and 110 percent. He pointed out that the values at the top half of the chart - per barrel oil cost of \$90 and above - are mostly above the \$1,800 threshold.

[3:46:40 PM](#)

REPRESENTATIVE VANCE stated her belief that linking the [PFD] directly to oil is counter to the intent of the permanent fund since the time of inception. She stated that the intent of the permanent fund was to take a non-renewable resource and turn it into a renewable resource to offset when Alaska's economy was down due to oil prices; a high [PFD] would balance out a low Alaska economy. She offered that under HB 132, both the state's economy and the PFD would be low at the same time, hurting Alaska's economy even more.

REPRESENTATIVE WOOL agreed that the permanent fund was created for the intent that when oil prices were low, Alaska would have a vast fund from which to draw for operating. He maintained that under HB 132, that would not change; the structured POMV draw of 5.25 percent would fund government services; the revenue would be steady and not be "chipped away at year after year" for PFD checks. He maintained that under HB 132 the permanent fund would stay intact and, in some ways, be more robust.

REPRESENTATIVE WOOL continued by saying that the PFD itself was not in the original conversation concerning the intent of the

permanent fund. He stated his belief that the intent of the PFD has morphed from its original intent. He opined that the intent of the PFD was to give Alaskans a dividend from the oil wealth so that they would monitor the investments and spending of the state. He mentioned that the permanent fund has grown tremendously. The PFD checks began at about \$300 - not a significant contribution to a person's budget - and varied from year to year. He mentioned that the PFD has become a guaranteed income. With the new structured draw and the size of the permanent fund, the checks could go to \$4,000. He offered his belief that such a check defies the intent of the PFD. He concluded that under HB 132, the permanent fund would stay intact and would be used to fund government and services.

[3:51:40 PM](#)

REPRESENTATIVE VANCE referred to the chart on slides 3 and 4. She asked whether reducing the percentage of new oil revenues going into the corpus from 50 percent to 25 percent under HB 132 would be detrimental to the corpus.

REPRESENTATIVE WOOL responded that the combined percentage of old and new oil revenues is about 31 percent; therefore, the reduction is from 31 percent to 25 percent. He agreed that under the proposed legislation, less would go to the corpus. He added that HB 132 was introduced to adjust the PFD in response to the new POMV program.

REPRESENTATIVE VANCE asked for the motivation behind HB 132, considering that less money would go into the corpus, less money would be introduced into Alaska's economy, the PFD checks would be fluctuating as much as it has historically, and only the POMV portion for government operations would be protected.

REPRESENTATIVE WOOL answered that the model proposed under HB 132 would cause greater fluctuations in the PFD check. A \$64 billion permanent fund, invested and producing an average of 8 percent annual return since inception, constitutes steady money regardless of the formula for the PFD. He said that his proposal would cause the check to fluctuate depending on the price and production of oil. He maintained his belief that some variability in the PFD check is acceptable. He stated that his preference is that the money for state government be steady and the payments to Alaskans be variable according to the oil industry market. He suggested that under his proposal there would be more incentive to produce more oil or produce natural gas. He declared that in the event that there is no more oil,

or the oil market abates, relying on a POMV draw to pay the PFD check without oil revenue would create a huge problem for Alaska. Under HB 132, if there is no more oil revenue, Alaska is not committed to giving a large check in perpetuity.

[3:56:53 PM](#)

REPRESENTATIVE LEDOUX asked for confirmation that the proposed legislation puts a cap on the PFD but no floor on the PFD.

REPRESENTATIVE WOOL replied, "You are correct." He said that the cap could be raised or lowered, or a floor could be added. He reiterated that if the price of oil goes down to \$15 per barrel and production goes down to 250,000 barrels per day, Alaska would have a difficult time operating. He maintained that the dividend under his proposed legislation would be like the dividend one gets with stock in Ford Motor Company: if the company has a good year, the investor gets a good dividend check; if the company loses money, the investor does not get a good check. He concluded that the PFD under HB 132 is tied more to performance of Alaska's number one resource.

REPRESENTATIVE VANCE asked, "Who do you represent - the state or the people?"

REPRESENTATIVE WOOL responded that he represents the people in the state of Alaska, and he believes that the state and the people of Alaska are inextricably entwined. He opined that a good state system that supports the people is desirable and, in turn, the people will support the state. He conceded that his proposed legislation is a different approach than has been considered. The previous administration introduced a PFD proposal that was complicated; however, there was a component of that formula that was dependent on oil. He mentioned that in 2008, Governor Sarah Palin proposed a bonus check of \$1,200 due to abundant oil revenues to the state; it was an "energy" check due to the high cost of heating oil. When the price of oil is high, it is good for the state but bad for the residents; it is of no benefit to the average citizen. He maintained that when the price of oil is high, a larger PFD check can offset some of the other expenses incurred due to the high cost of oil.

[HB 132 was held over.]

[4:01:24 PM](#)

The committee took an at-ease from 4:01 p.m. to 4:03 p.m.

HJR 18-CONST AM: PERMANENT FUND; POMV; EARNINGS

[4:03:12 PM](#)

CO-CHAIR FIELDS announced that the next order of business would be HOUSE JOINT RESOLUTION NO. 18, Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund and to appropriations from the Alaska permanent fund.

[4:03:22 PM](#)

CO-CHAIR KREISS-TOMKINS, as prime sponsor HJR 18, paraphrased the sponsor statement, which read as follows [original punctuation provided]:

House Joint Resolution 18 (HJR 18) constitutionally protects the real value of the Alaska Permanent Fund – permanently, for future generations – by “hardening” the POMV structure of SB 26, as passed by the legislature in 2018.

HJR 18 constitutionally limits appropriations from the Permanent Fund to 5% of the average of its market value for the first five of the preceding six fiscal years. Because POMV-based management of the Permanent Fund renders the function of the earnings reserve account obsolete, HJR 18 also merges the earnings reserve account with the principal; effectively all the Permanent Fund becomes the principal.

Most important, HJR 18 addresses the urgent and bipartisan goal of protecting the real value of the Permanent Fund for future generations. In addition, HJR 18 provides the Alaska Permanent Fund Corporation certainty in managing assets, allowing APFC to earn a best possible return on its investments, for the benefit of Alaskans.

CO-CHAIR FIELDS asked the reason for Representative Kreiss-Tomkins concern regarding the legislature drawing down the state's savings account.

CO-CHAIR KREISS-TOMKINS explained that since he was elected, the legislature has spent \$14 billion out of savings, because doing so was easier than cutting the operating budget and/or passing

taxes. He maintained that one or the other of those two actions should have been taken, but neither occurred because it was easier to spend down savings. He stated that he has been frustrated by that scenario and believes that putting in place hard protections is an important and prudent measure. He offered that the permanent fund is one of the largest sovereign wealth funds in the world and certainly the largest in the U.S. He mentioned that the permanent fund is a huge intergenerational asset and expressed his desire that it be there permanently.

CO-CHAIR FIELDS mentioned that his staff has prepared long-term projections for the permanent fund under different scenarios and offered them to the committee members to review.

[4:06:50 PM](#)

REPRESENTATIVE SHAW referred to Representative Kreiss-Tomkins's testimony that \$14 billion has been spent from the savings accounts - the Statutory Budget Reserve (SBR) and the Constitutional Budget Reserve Fund (CBRF). He mentioned that Representative Kreiss-Tomkins was involved in the legislative process that resulted in the spending and asked, "We now have to be prudent because there is a potential that we could go broke in that savings account?"

CO-CHAIR KREISS-TOMKINS explained that the \$14 billion is an approximate number; the spending began in 2013; the SBR has about \$1.7 billion remaining; and therefore, the legislature has effectively spent the savings down. He concluded that it was that situation which prompted the passage of Senate Bill 26 [during the Thirtieth Alaska State Legislature, 2017-2018, signed into law 6/27/18].

REPRESENTATIVE VANCE concurred with the need to protect the corpus of the permanent fund and the importance of it remaining in perpetuity. She asked whether there is a need for inflation-proofing in the proposed legislation.

CO-CHAIR KREISS-TOMKINS responded that inflation-proofing is effectively accounted for in the percent of market value (POMV) structure provided the draw is sufficiently conservative. He said that the 5 percent draw proposed in HJR 18 and also incorporated in Senate Bill 26 beginning in fiscal year 2021 (FY 21), effectively accounts for inflation in looking at the average market value of the permanent fund in the first five of the preceding six fiscal years. With a greater percentage draw,

the real value of the fund would be eroded over time by inflation.

REPRESENTATIVE VANCE asked whether the inflation-proofing is in statute.

CO-CHAIR KREISS-TOMKINS explained that under the POMV approach the permanent fund is basically a classical endowment: there is a big pot of money, and the draw down each year is a certain percentage of the pot. Currently, Alaska has two pots of money: one pot is static; the other constantly grows; and money is transferred from the growing pot to the static pot. He stated that it is important to account for inflation by shifting money from the earnings reserve account (ERA) to the corpus on an annual basis to ensure that the corpus will not lose value over time. Under his proposed legislation, the structure is simplified to have one large corpus - all principle - and the draw already accounts for inflation; in other words, inflation-proofing is built in.

CO-CHAIR FIELDS added that with an 8 percent or more annual return and a 5 percent draw, the remaining 3 percent is more than enough to prevent against inflation.

[4:11:23 PM](#)

REPRESENTATIVE VANCE asked, "While this protects the corpus in the constitution, where is the dividend?"

CO-CHAIR KREISS-TOMKINS responded that there have been discussions among legislators about whether the [amount of the] permanent fund dividend (PFD) should be addressed in the constitution. He added that he personally believes that it should be and has sponsored a constitutional amendment to do so. He noted the lack of legislative support for that idea. He stated that as a baseline, all legislators, regardless of their views on the PFD, agree on the importance of protecting the fund itself. Under HJR 18 and the POMV approach to managing the permanent fund, the amount of the PFD becomes a decision of the legislature, as it is currently. He mentioned that the 5 percent draw from the fund would be more than enough to pay a PFD that follows the statutory formula, if the legislators supported it. Currently, the political is to distribute a lesser amount.

REPRESENTATIVE VANCE referred to page 1, line 15-16, of HJR 18, which read in part: "Each fiscal year, the legislature may

appropriate from the permanent fund to the general fund an amount that is not more than five percent...." She asked whether this could be interpreted as "may appropriate the POMV." She added that historically the words "may appropriate" have been "fighting words." She asked the reasoning behind choosing this wording for the constitutional amendment.

CO-CHAIR KREISS-TOMKINS restated the question, Why does the amendment use "may" instead of "shall"? He stated that if oil exceeds \$140 barrel and a large amount of traditional petroleum revenue is flowing into the state treasury, the legislature may choose to draw down only 4.25 percent of the market value, because it doesn't need the full 5 percent; the remaining money could be left to grow in the fund for future generations. He suggested that there may be scenarios in which the legislature decides that spending the full 5 percent is unnecessary.

[4:15:14 PM](#)

REPRESENTATIVE LEDOUX asked whether under HJR 18, taking a 5 percent draw rather than a 5.25 percent draw, would subject the state to greater reductions in services or a lower PFD check than currently experienced.

CO-CHAIR KREISS-TOMKINS agreed that there would be less money available with a POMV draw of 5 percent compared with a POMV draw of 5.25 percent; however, there are many other variables at play.

REPRESENTATIVE VANCE asked Representative Kreiss-Tomkins to explain how the ERA is currently used.

CO-CHAIR KREISS-TOMKINS said that currently the ERA consists of realized and unrealized earnings from the permanent fund; this is the account use by the legislature to pay dividends and some public services. He added that the permanent fund is generally understood to consist of the corpus and the ERA combined.

REPRESENTATIVE VANCE asked for confirmation that the two accounts are clearly different regarding accessing the funds. She asked for clarification of the motivation behind combining the accounts.

CO-CHAIR KREISS-TOMKINS agreed that there is a very important and profound difference between the funds: the corpus is protected in the constitution and cannot be accessed for appropriation, whereas the ERA - which is close to \$19 billion -

is available for appropriation by a simple majority vote of the legislature. He noted that the two-account structure of the permanent fund is highly unusual relative to other sovereign wealth funds.

[HJR 18 was held over.]

[4:19:44 PM](#)

The committee took an at-ease from 4:20 p.m. to 4:21 p.m.

HJR 6-CONST. AM.:PERMANENT FUND & DIVIDEND

[Contains discussion of HJR 5, HJR 7, SJR 4, SJR 5, and SJR 6]

[4:21:13 PM](#)

CO-CHAIR FIELDS announced that the final order of business would be HOUSE JOINT RESOLUTION NO. 6, Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund and the permanent fund dividend.

[4:21:24 PM](#)

BRUCE TANGEMAN, Commissioner, Department of Revenue (DOR), on behalf of the House Rules Standing Committee, sponsor of HJR 6, by request of the governor, lauded the actions of the legislature in creating the percent of market value (POMV) structure of drawing money from the permanent fund and noted the current discussions in the committee meeting addressing the split. He stated that HJR 6 would protect Alaskans' right to determine the future of the permanent fund dividend (PFD). He said that the permanent fund and the PFD was never broken and worked exactly as designed for 34 years. Over the three decades, the PFD calculation and the amount paid to Alaskans was never questioned, regardless of the size of the check, until 2016, when the legislature appropriated the full PFD and Governor Bill Walker vetoed it by half. In 2017 and 2018, both branches of government agreed on a reduced dividend.

MR. TANGEMAN, in response to Representative Wool's proposed legislation [HB 132, introduced and discussed during the 4/25/19 House State Affairs Standing Committee meeting], said that currently DOR tracks the market to determine a five-year rolling average; HB 132 would track the price and production of oil. He stated that in 2012, the PFD was \$878; in 2013 the PFD was \$900; however, in 2015, the dividend was the largest ever at \$2,072. He stated that the dip reflected the market correction of 2008,

which affected the following five years; in 2013, the amount again increased and was at its highest level in 2015. He conceded that there has been volatility in the PFD amount, but Alaskans never questioned the amount, because they understood it to be the result of the calculation and not politics. He maintained that political decisions regarding the amount of the PFD are what "got people's attention" and created the current situation.

MR. TANGEMAN said that the constitutional amendment under HJR 6 would guarantee the PFD; PFDs would not be subject to appropriation; the funds would be transferred to the PFD payment fund and distributed. He maintained that the amendment under the proposed resolution would protect the PFD; it could not be reduced by the legislature or the governor's veto. Further, the amendment would require that any changes to the statutory PFD formula would require a vote of the people. He emphasized, "It's Alaska's PFD and they should be entrusted with the future of any changes to the calculation." He stated that the proposed resolution is part of Governor Michael J. Dunleavy's larger fiscal plan, which is to ensure Alaskans are included when deciding the size and scope of their government.

[4:26:09 PM](#)

WILLIAM MILKS, Senior Assistant Attorney General, Legislation & Regulations Section, Civil Division (Juneau), Department of Law (DOL), on behalf of the House Rules Standing Committee, sponsor of HJR 6, by request of the governor, relayed that the proposed resolution consists of a constitutional amendment which would provide for a dividend in the Alaska State Constitution. He reiterated that the statutory dividend program was followed for three decades; it not being followed prompted a court case challenge; the Alaska Supreme Court stated clearly that absent a constitutional amendment providing for a dividend, the PFD will compete annually for legislative appropriations. He relayed that the proposed amendment follows up on that decision.

MR. MILKS paraphrased from the sectional analysis, which read as follows [original punctuation provided]:

Section 1: This would provide a conforming amendment to the existing language in order to authorize a portion of permanent fund income to be used for dividends as set forth in Section 2.

Section 2: This section would create two new subsections in the permanent fund amendment.

Subsection (b) would require that a portion of the permanent fund income be used, without an appropriation, solely for the purpose of paying permanent fund dividends to state residents. Those payments would occur according to the dividend program and formula currently set forth in statute. Subsection (b) would also allow the legislature to change the dividend program, including amount and eligibility, subject to the approval of the voters in subsection (c).

Subsection (c) would require that any law passed by the legislature to amend the permanent fund dividend program, including the amount and the eligibility requirements, would not take effect unless the voters approved the proposed law at the next statewide election. If approved by the voters, it would take effect 90 days after certification of the election.

Section 3: This transition provision specifies that the dividend program in place on January 1, 2019 would remain in place until the legislature and the voters approved a change to the program.

Section 4: This section would require that the constitutional amendment be placed on the general election ballot in 2020.

[4:29:06 PM](#)

CO-CHAIR KREISS-TOMKINS asked for the administration's perspective on the changes made to [SJR 5] - the Senate companion resolution.

MR. MILKS responded that the largest change was that the proposed constitutional amendment would include the statutory formula for calculating the dividend amount, and any change in the formula would be subject to the approval of the voters. He mentioned that an additional change to the proposed amendment was the replacement of annual payments with quarterly payments.

CO-CHAIR KREISS-TOMKINS asked for the administration's position on the quarterly disbursements.

[4:31:15 PM](#)

MIKE BARNHILL, Director of Policy, Office of Management & Budget (OMB), Office of the Governor, responded on the administration's position on changes made to SJR 5 by the Senate Judiciary Standing Committee [during the 4/15/19 meeting]. The administration supports the elimination of the requirement that any change in eligibility requirements [for the PFD] must be approved by voters. The administration does not object to the amendment calling for quarterly disbursements of the PFD but that the change would be accomplished more appropriately by statute. The administration did not voice an objection regarding the third change - rolling SJR 6 into SJR 5. He explained that SJR 6 constitutes the administration's proposal with respect to a constitutional spending limit. He said that the administration's preference is that the two proposed resolutions be considered separately; they represent substantial policy amendments to the constitution.

REPRESENTATIVE LEDOUX asked whether the administration opposes quarterly payments as a social engineering concept.

MR. BARNHILL expressed that there are valid policy reasons to pay the PFD on a more periodic basis: more of the dividend money would stay in state; it would have more impact on the economy of the state; it could generate jobs; and an annual dividend tends to be spent Outside. He said that the administration's objection is not from a policy standpoint, but due to a concern for the appropriate place - constitution or statute.

REPRESENTATIVE VANCE suggested that quarterly payments would benefit not only the recipients but the earnings of the corpus, as the money would remain in the corpus longer. She expressed a desire to hear the perspective of Angela Rodell, Executive Director, Alaska Permanent Fund Corporation, (APFC) regarding quarterly payments.

REPRESENTATIVE VANCE asked if it is possible to adopt the proposed constitutional amendment in HJR 6 without adopting the proposed spending cap and vice versa.

MR. BARNHILL answered that the administration intentionally structured the proposed constitutional amendments in three separate vehicles so that the citizens would have the ability to vote on each one based on its merits; by implication, one could be adopted without the other. He said that the constitutional

amendments would give the voters the opportunity to vote up or down on the spending limit [HJR 7 and SJR 6], on a dividend that is constitutionally appropriated [HJR 6 and SJR 5], and on the taxpayer's bill of rights [HJR 5 and SJR 4]. He concluded that one amendment could be adopted without the others; however, it is the Dunleavy administration's perspective is that the residents should have the opportunity to vote on each.

REPRESENTATIVE VANCE asked whether HJR 6 protects the corpus of the permanent fund.

MR. BARNHILL responded that existing constitutional construct regarding the permanent fund protects the corpus; the language was adopted in 1976. It relays that the principle shall be used only for incoming-producing investments, implying that it cannot be appropriated.

[4:36:46 PM](#)

CO-CHAIR FIELDS commented that the constitution does not protect the ERA; therefore, the legislature could still draw down that account.

MR. BARNHILL concurred.

REPRESENTATIVE WOOL asked for confirmation that under the proposed constitutional amendment, the statutory formula [for the PFD] would be in the constitution, and a change in the formula would require a vote of the people.

MR. BARNHILL replied that the constitutional amendment would guarantee the transfer of PFD funds pursuant to statute. It would introduce direct democracy into the constitution by dictating that if the legislature changes the statutory formula, the people would automatically get an opportunity to vote on the change. It would not enshrine a particular statutory approach to the PFD calculation. The legislature would retain the right to change the calculation; however, any change would require approval by a vote of the people.

REPRESENTATIVE LEDOUX asked whether the people would vote on any changes that the legislature made before the changes can go into effect.

MR. BARNHILL responded, "Correct."

REPRESENTATIVE LEDOUX asked for confirmation that if the legislature wants to make any changes, it would make the changes, put the changes out for vote, and if the people accept the changes, the changes would go into effect the next year.

MR. BARNHILL said, "Correct." He explained that the proposed constitutional amendment would prepackage a referendum. Currently under the constitution when the legislature passes any law, the public can get the issue on the ballot by gathering signatures in a referendum process. The proposed constitutional amendment would make the referendum process automatic.

[4:39:15 PM](#)

CO-CHAIR KREISS-TOMKINS mentioned discussion about a 50-50 split of the POMV draw as a compromise, producing a dividend amount that would be larger than that of the last two years but smaller than this proposal would yield. He asked whether the administration has a position on the 50-50 split compromise.

[4:40:05 PM](#)

The committee took a brief at-ease at 4:40 p.m.

[4:40:09 PM](#)

MR. BARNHILL answered that the administration has not taken a position on any new approach to the PFD, such as a 50-50 split, but is willing to discuss it.

REPRESENTATIVE VANCE asked for confirmation that if HJR 6 passed, it would be put to a vote on the 2020 ballot to decide if it should be in the constitution.

MR. BARNHILL concurred.

CO-CHAIR FIELDS asked whether the administration has mapped out a timeline, since any change in the statutory formula would substantially alter the budget process.

MR. BARNHILL disagreed that a change in the statutory formula would substantially change the budget process. The proposed resolution clearly states the timelines; the first opportunity for the legislature to make appropriations pursuant to a new statutory formula would be the fiscal year following the election. For example: the vote is in November; the legislative session begins the following January; and the

legislature would appropriate for the following fiscal year pursuant to the constitutional amendment.

REPRESENTATIVE VANCE asked whether it would be feasible for the legislature to combine the three resolutions so that the spending cap, the income tax, and the PFD were all put before the voters in one ballot question.

Mr. BARNHILL stated that he appreciated the representative's desire to simplify constitutional issues for the voters; however, he offered that considerable time and effort was spent to determine the best way to present the issues. The decision was made to use three separate vehicles addressing three separate subjects. He maintained that giving the people a voice in how the PFD is calculated and in any legislative decision to change that calculation is a discreet issue that stands on its own. The other two issues - giving people a voice in any tax changes or rate increases and giving the people a voice in amending the constitution to limit spending - are also separate discreet issues. He conceded that since all three issues fall under Article IX of the constitution, it would be possible to defend combining them; however, it is the intention of the administration to give the people the ability to vote each one up or down.

[4:45:04 PM](#)

REPRESENTATIVE LEDOUX referred to the proposed constitutional amendment [in HJR 5 and STR 4], also known as the taxpayer bill of rights, and asked whether the legislature would be required to approve a tax passed by the people through an initiative process.

Mr. BARNHILL agreed that passage of the constitutional amendment would require the people to vote on any new tax or tax rate increase passed by the legislature, and alternately, if the people initiate a tax or a tax increase, the legislature would be required to approve it before it is enacted. He stated that both mechanisms currently exist with one exception - when the people initiate a law, the legislature cannot repeal it for two years. The resolution seeks to shorten that time frame.

REPRESENTATIVE LEDOUX expressed her belief that most people who support the taxpayer bill of rights do not realize that it would impact their ability through the initiative process. She offered that the most likely tax to be approved through an initiative process would be an oil tax. She stated that she

does not think most people realize that the constitutional amendment would give the legislature "a second bite at that."

REPRESENTATIVE WOOL maintained that the three issues - taxes, PFDs, and the spending cap - are all intertwined in the final budget product. He asked whether Mr. Barnhill thought that separating issues that are intertwined might present a problem.

Mr. BARNHILL responded, no. He expressed his belief that the people can analyze each issue separately. He added that if there is an emerging consensus within the committee to roll the resolutions together to move them forward, the administration would most likely not object.

REPRESENTATIVE WOOL suggested that the administration, through the proposed constitutional amendments, is introducing another branch of government. Raising or lowering revenue would require approval not only of the House, the Senate, and the executive branch, but of the people, which would take a year or more and a great deal of educational campaigning.

Mr. BARNHILL responded that this very point was debated at length at the constitutional convention, and the convention approved this vigorous element of direct democracy. He added that Alaska has a very strong access to legislation through the initiative and referendum process. He suggested that the governor is proposing to take that element of direct democracy that exists right now and that the people regularly access right now and pre-package the initiative/referendum in respect to the PFD and new and increased taxes. He opined that if the legislature were to make a change to the PFD statute, there is a high likelihood that a referendum would be filed. He added that the passage of a personal income tax would most likely result in a referendum as well. The administration is seeking to make that referendum automatic and give the people the opportunity to vote on these very important issues that they care deeply about.

[4:51:47 PM](#)

CO-CHAIR FIELDS asked whether the inclusion of legislative approval of voter-approved initiatives was intentional or accidental. As an example, he referred to a voter initiative to spend less money on per barrel tax credits to oil companies.

MR. BARNHILL responded that requiring legislative approval over a voter initiated new tax or tax rate increase was no accident; it was the point.

MR. MILKS responded that in the proposed constitutional amendment addressing taxes, if the voters, by initiative, pass a new tax or increase the rate of tax, the legislature can reject it. He stated that in the original version of the resolution, the default was as follows: if the legislature did nothing, the new tax was rejected. The Senate Judiciary Standing Committee changed the default to the following: if the voters pass a tax, the legislature has the opportunity to

[Due to technical difficulties, the last minute of the hearing was not recorded.]

CO-CHAIR FIELDS stated that HJR 6 would be held over.

[4:54:47 PM](#)

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 4:55 p.m.