

**ALASKA STATE LEGISLATURE  
HOUSE STATE AFFAIRS STANDING COMMITTEE**

May 2, 2019

3:06 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

**COMMITTEE CALENDAR**

PRESENTATION(S): BUILDING DIVESTMENT WITH THE DIVISION OF FACILITIES SERVICES (DOT&PF)

- HEARD

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.

- MOVED HJR 18 OUT OF COMMITTEE

HOUSE JOINT RESOLUTION NO. 7

Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit; relating to the budget reserve fund and establishing the savings reserve fund; and relating to the permanent fund.

- HEARD & HELD

HOUSE BILL NO. 28

"An Act relating to an annual report concerning the payment of equal pay for comparable work; increasing the minimum wage; and providing for an effective date."

- HEARING CANCELED

HOUSE JOINT RESOLUTION NO. 5

Proposing amendments to the Constitution of the State of Alaska prohibiting the establishment of, or increase to, a state tax without the approval of the voters of the state; and relating to the initiative process.

- SCHEDULED BUT NOT HEARD

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.

- SCHEDULED BUT NOT HEARD

**PREVIOUS COMMITTEE ACTION**

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
04/25/19	(H)	Heard & Held
04/25/19	(H)	MINUTE(STA)
04/30/19	(H)	STA AT 3:00 PM GRUENBERG 120
04/30/19	(H)	Heard & Held
04/30/19	(H)	MINUTE(STA)
05/01/19	(H)	JUD AT 1:00 PM GRUENBERG 120
05/01/19	(H)	<Bill Hearing Canceled>
05/02/19	(H)	STA AT 3:00 PM GRUENBERG 120

BILL: HJR 7

SHORT TITLE: CONST AM: APPROP. LIMIT; RESERVE FUND

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/20/19	(H)	READ THE FIRST TIME - REFERRALS
02/20/19	(H)	STA, JUD, FIN
04/30/19	(H)	STA AT 3:00 PM GRUENBERG 120
04/30/19	(H)	Heard & Held
04/30/19	(H)	MINUTE(STA)
05/02/19	(H)	STA AT 3:00 PM GRUENBERG 120

**WITNESS REGISTER**

MARK DAVIS, Director

Division of Facility Services (DFS)  
Department of Transportation & Public Facilities (DOT&PF)  
Anchorage, Alaska

**POSITION STATEMENT:** Presented on "Building Divestment with the Division Of Facilities Services (DOT&PF)" with the use of a PowerPoint presentation.

AMANDA HOLLAND, Management Director  
Office of Management & Budget (OMB)  
Office of the Governor  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions during the presentation, "Building Divestment with the Division Of Facilities Services (DOT&PF)."

CORI MILLS, Senior Assistant Attorney General  
Labor and State Affairs Section  
Department of Law (DOL)  
Juneau, Alaska

**POSITION STATEMENT:** Co-presented HJR 7 on behalf of the House Rules Standing Committee, sponsor, by request of the governor, with the use of a PowerPoint presentation.

ED KING, Chief Economist  
Office of Management & Budget (OMB)  
Office of the Governor  
Juneau, Alaska

**POSITION STATEMENT:** Co-presented HJR 7 on behalf of the House Rules Standing Committee, sponsor, by request of the governor, with the use of a PowerPoint presentation.

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 7.

#### **ACTION NARRATIVE**

[3:06:07 PM](#)

**CO-CHAIR JONATHAN KREISS-TOMKINS** called the House State Affairs Standing Committee meeting to order at 3:06 p.m. Representatives LeDoux, Story, Vance, Shaw, and Kreiss-Tomkins were present at the call to order. Representatives Wool and Fields arrived as the meeting was in progress.

**PRESENTATION(S): Building Divestment with the Division of  
Facilities Services (DOT&PF)**

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CO-CHAIR KREISS-TOMKINS announced that the first order of business would be a presentation by Mark Davis, Director, Division of Facility Services (DFS), Department of Transportation & Public Facilities (DOT&PF).

[3:07:25 PM](#)

The committee took an at-ease from 3:07 p.m. to 3:09 p.m.

[3:09:07 PM](#)

MARK DAVIS, Director, Division of Facility Services (DFS), Department of Transportation & Public Facilities (DOT&PF), began his PowerPoint presentation, entitled "Alaska Department of Transportation & Public Facilities, House State Affairs Committee, Division of Facilities Services, Property Disposal Workgroup," by reviewing the agenda on slide 2 of the PowerPoint, which read as follows: "Purpose, Timeline, Process, Sample product, and Questions."

MR. DAVIS turned to slide 3 and relayed that the purpose of the presentation is to provide information about the property disposal directive. He referred to slide 4, entitled "Facts Bearing on the Problem," and offered the following facts, which read as follows:

The State of Alaska has approximately 2200 state-owned  
buildings

The state has a backlog of deferred maintenance valued  
at \$1.98 billion\*

The Governor issued a property disposal directive to  
executive departments requesting information about  
facilities

OMB accepted the offer from DOT&PF to assist in  
gathering data via the facilities council and making  
recommendations

\* Includes University deferred maintenance backlog of  
\$1.2 billion

MR. DAVIS reviewed the timeline on slide 5 to discuss the division's key events: met with the facilities council on three separate occasions; conducted several informal meetings with Office of Management & Budget (OMB); the next scheduled meeting with the facilities council is Friday [May 3, 2019].

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REPRESENTATIVE STORY asked, "Who serves on the facility council?"

MR. DAVIS answered that the facilities council is comprised of 15 people designated by the departments that routinely work with DFS. The council holds meetings at least once per quarter and now more often to work on the property disposal initiative.

REPRESENTATIVE STORY asked for specific names of council members.

MR. DAVIS relayed the following individuals: Robert Carr from the Department of Military & Veterans' Affairs (DMVA); Amy Burke and Keith Stephens from the Department of Health and Social Services (DHSS); Dan Aicher from the Department of Corrections (DOC); Lisa Golisek-Nankerv from the Department of Education & Early Development (DEED); Pete Bonin, Division Operations Manager from DOT&PF.

CO-CHAIR KREISS-TOMKINS asked for an emailed list of the complete membership. He requested a general idea of the types of positions represented on the council.

MR. DAVIS replied that it varies: some are the facilities managers for the departments; others are division directors or sub-agency managers within the departments; there are representatives from OMB; and there is also the chief of the Department of Environmental Conservation (DEC) laboratory. He concluded that the members are whomever the department considers best to represent it.

REPRESENTATIVE STORY asked to know who would make the final decisions [regarding property disposal].

MR. DAVIS responded that the decisions would come from OMB; DFS's role is to facilitate collection and analysis of the data.

REPRESENTATIVE WOOL asked to know who on the council represents the University of Alaska (UA), since it is such a large component of the state inventory.

MR. DAVIS answered that the council does not have a representative from UA; DFS intends to reach out to invite someone from one of the three UA locations.

REPRESENTATIVE WOOL pointed out that slide 4 indicates that \$1.2 billion of the total \$1.98 billion in deferred maintenance backlog is for UA. He asked how many of the 2200-plus buildings in this category are UA buildings.

MR. DAVIS replied that he will provide that information.

CO-CHAIR KREISS-TOMKINS asked whether OMB and the executive branch have the power and authority unilaterally to divest UA buildings properties. He stated that he has the same question in reference to the Alaska Court System (ACS). He offered that his questions relate to the matter of separation of powers.

[3:15:46 PM](#)

MR. DAVIS moved on to slide 6, entitled "Approach to Analysis," to demonstrate - at a high-level - the approach used by the workgroup to meet the intent of the property disposal directive. The workgroup is asking the facilities council members to work with department leadership to place facilities into one of three categories: 1) the "consider category," which includes facilities that departments believe are logical choices for gathering information to determine if selling them will be beneficial to the state; 2) the "do not consider" category, which includes assets believed to be the least likely to sell; and 3) the "future analysis" category, which includes all other facilities. He said that based on the number of facilities the state departments have, the approach provides a method to prioritize the work. The departments are still working to complete the "consider" selection process. He added that once all the facilities in the "consider" category are identified, DFS will review them against a set of criteria and develop specific recommendations. He clarified that DFS will make recommendations as to what properties should be divested; however, those decisions will be made in consultation with the relevant agency through its representative on the facilities council. He emphasized that DFS would not make a recommendation counter to a department's desire.

MR. DAVIS referred to slide 7, entitled "Building Consideration Briefing," and stated that facilities will be identified for one of the three categories mentioned. Slide 7 illustrates the one-slide snapshot that a workgroup member would develop to aid the group in discussing the disposition of the facility. The snapshots will be updated as more information becomes available. These work products will be delivered to OMB in the June-July timeframe. The Annex Building, shown on slide 7, is an example of a building that would be in the "consider" category. The facilities council is waiting for more information to make a recommendation on the building. It is a process that takes time, and as more information becomes available, the recommendations could change. In this way, DFS can track the buildings that rise to the top of the "consider" category list, at which time they will be referred to OMB to continue the process.

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REPRESENTATIVE STORY referred to the example on slide 7, which states that if the annex is sold, DOT&PF could take advantage of alternative leased space in the University of Alaska Anchorage (UAA) Bragaw facility for about \$625,000 per year. She asked if those payments would go to UAA.

MR. DAVIS answered that the decision has not been made; [the UAA Bragaw facility] is office space that would meet DOT&PF needs; however, no determination has been made whether the transaction is beneficial financially for the state. He concluded that DFS continues to evaluate alternatives, as the snapshots are updated.

CO-CHAIR KREISS-TOMKINS asked when DFS will have made its recommendations.

MR. DAVIS responded that the goal is to have the recommendations by the end of June; however, DFS is still gathering information on the first step of the analysis - the list of buildings categorized under "consider." He offered that DFS is behind schedule, but the hope is to have the list to OMB by July at the latest.

REPRESENTATIVE STORY asked, "At what point will the information come back to this committee?"

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AMANDA HOLLAND, Management Director, Office of Management & Budget (OMB), Office of the Governor, answered that the target date for the preliminary report to come to OMB from DFS is close to the end of June. At that point, OMB will review the results to determine how many facilities are in the "consider" and "do not consider" categories; it will give OMB a comprehensive view of the facilities under consideration; and OMB will do additional analysis. She said that OMB will then prepare an aggregate report that would include DFS recommendations and the additional information from OMB. The OMB would submit that report within two weeks of the information being received from DFS - or mid-July at the latest.

REPRESENTATIVE STORY asked when the information would come back to the House State Affairs Standing Committee.

MS. HOLLAND answered that OMB can provide the preliminary list of buildings to the legislature at the same time as it is submitted to the office of the governor.

CO-CHAIR KREISS-TOMKINS asked about the separation of powers as it relates to the disposal of properties of UA and ACS.

MS. HOLLAND responded that OMB does not have authority over UA or ACS to determine what they will do with their deferred maintenance or with their facilities. The two agencies could be invited into the facilities council, and the council could work with them to identify additional opportunities for the state to realize some cost savings.

REPRESENTATIVE WOOL acknowledged that since UA is in a different category and OMB does not have jurisdiction, he now understands why no one on the council represents UA. He asked for the deferred maintenance and number of buildings under consideration after excluding UA. He mentioned there are some University of Alaska Fairbanks (UAF) dorms that are old; however, he opined that selling a dorm and putting an office building into the middle of the campus doesn't make sense. He offered that selling a building that is in the middle of a state complex would not always make sense.

CO-CHAIR KREISS-TOMKINS asked for confirmation that the executive branch has no authority unilaterally to divest UA properties.

MS. HOLLAND answered, "That is correct."

[3:28:29 PM](#)

REPRESENTATIVE WOOL stated that in Fairbanks, a large inventory of commercial real estate is sitting empty; the buildings have been for sale for a long time. He offered that adding buildings to the real estate market does not necessarily lead to bringing money into the state. He acknowledged that it is possible that consolidating properties, leasing space, and shuttering buildings does make some economic sense. He asked if OMB considered the fact that putting a building up for sale may not actually result in selling it.

MS. HOLLAND responded that the intent behind the property disposal directive is to look at the state "footprint," decide whether property is being used in the most effective way possible, and look for opportunities to be more cost effective both in the short-term and the long-term. She maintained that by looking at the categories, OMB can identify: the buildings with deferred maintenance; the kind of deferred maintenance associated with a property; the use of a property; the statutory requirements associated with a property; and any market interested in purchasing a property. She maintained that divestment of property may not mean necessarily selling it; other possibilities include transferring ownership to another governmental entity or demolishing the building. She emphasized that OMB strives to consider every possibility.

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REPRESENTATIVE LEDOUX asked whether UA was part of the property disposal directive.

MS. HOLLAND replied that the governor's directive focused on having each department - the operating agencies of state government - look at its facilities; therefore, it did not include UA.

REPRESENTATIVE LEDOUX expressed her confusion with the PowerPoint presentation: On slide 4, the second fact bearing on the problem is that the state has a backlog of deferred maintenance valued at \$1.98 billion. The asterisk reveals that \$1.2 billion of the deferred maintenance backlog belongs to UA. She stated that she did not understand why the presentation is geared to the \$1.98 billion, when UA has not been included in the directive. She maintained that the discussion should be on the \$.8 billion.

MS. HOLLAND relayed that the backlog of deferred maintenance is a focal point for OMB in considering using state property more effectively and using property in ways to consolidate functions. She agreed that the entire backlog is \$1.98 billion; \$1.2 billion of that amount is the UA backlog. She said that OMB's focus is on operating agencies, and its report will go to the governor. She maintained that she does not know what activities the governor is undertaking regarding the university. She stated, "I can give you a breakdown of that leftover...backlog of deferred maintenance. So, if you take the total \$1.98 billion - we already discussed the university - \$134.7 million is for school district major maintenance; \$616.8 million is for executive agencies and the court system. If we look at the split in the executive agencies, \$312.6 million of that \$616 million is for facilities; and so, while it doesn't address the entire backlog, it is a significant portion of the executive branch backlog." She continued by saying, "\$6.3 million is courts; \$219 million is highways; \$58 is aviation ..."

CO-CHAIR KREISS-TOMKINS asked Ms. Holland to provide the numbers to the committee in writing.

REPRESENTATIVE LEDOUX commented that ACS is not included in the directive.

MS. HOLLAND concurred.

REPRESENTATIVE LEDOUX suggested that school districts are not included in the directive, because the buildings are not state owned.

MS. HOLLAND responded that she does not know. She reiterated that the directive is designed to look at executive branch properties and to determine if there are cost-saving opportunities. She continued by saying that part of the directive could address some of the backlog of deferred maintenance; however, the property disposal directive was not written for the purpose of completely solving the deferred maintenance backlog. She maintained that the deferred maintenance backlog is a contributing factor to consider when choosing the properties for disposal; they are related but not reliant on each other.

REPRESENTATIVE LEDOUX expressed that she does not understand why Ms. Holland is discussing properties over which OMB has no control. She mentioned that school district buildings belong to

the municipalities. She stated that she is confused as to why the focus is not solely on the state-owned buildings.

MS. HOLLAND answered that the directive does focus on executive branch state-owned buildings over which it has the authority of disposal. She explained that the information in the presentation was an attempt to identify the entire deferred maintenance backlog amount and to point out that some of that backlog is for the executive branch.

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CO-CHAIR KREISS-TOMKINS expressed that although a noble intention, the information has created confusion; DFS has no control over ACS, UA, and school districts. He stated that the committee will focus on executive branch agencies.

REPRESENTATIVE WOOL offered that recommendations could be made to other agencies.

REPRESENTATIVE VANCE asked whether the state is responsible for paying for the deferred maintenance for courts and schools.

MS. HOLLAND replied that she does not know but would share the deferred maintenance presentation, which was presented to the House Finance Standing Committee. She added that there is a state backlog of deferred maintenance; she can give the rough breakdown of the split; however, she does not have the answer to the question.

REPRESENTATIVE VANCE stated that she learned that the administration was looking at state leases, and someone in the Department of Administration (DOA), who spent one day looking at state leases, realized the state was paying more than market prices; upon renegotiation of the lease, the state saved \$17 million in one day. She offered that the intent of the directive is to see what else could be done better.

MS. HOLLAND agreed.

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CO-CHAIR KREISS-TOMKINS referred to the public process associated with the directive. He expressed his understanding that DFS will make a suite of recommendations; the recommendations will go to the governor's office; and the governor's office will make the final decisions. He suggested

that if, for example, the Sheldon Jackson Museum was put up for sale, there are people with very strong feelings about that. He asked, "When does the public get a say?"

MS. HOLLAND replied that she is not aware of a requirement for public comment or public process. She stated that she can pass the request on to the governor as a recommendation from the committee.

CO-CHAIR KREISS-TOMKINS asked whether there is any plan, at present, for public process.

MS. HOLLAND responded that she is not aware of what actions will occur once OMB submits its report to the Office of the Governor.

CO-CHAIR KREISS-TOMKINS told Ms. Holland to consider it a recommendation from him that there be some opportunity for public comment. He asked for DFS and OMB to provide a list of the initial recommendations to the House State Affairs Standing Committee once it is complete.

MS. HOLLAND said, "Yes, we can do that."

CO-CHAIR KREISS-TOMKINS asked for insight on how the Sheldon Jackson Museum got on the list and into public discussion as a state facility - building and contents - that might be divested.

MS. HOLLAND replied that she is not aware of how or why the Sheldon Jackson Museum was mentioned specifically. She said that DFS is continuing to do analysis with the facilities council. She stated that she is not aware of any list of facilities or properties, and that OMB is waiting for the report from DFS before moving forward with recommendations to the governor's office.

CO-CHAIR KREISS-TOMKINS asked for confirmation that at present, there is no affirmative plan to divest Sheldon Jackson Museum from state ownership.

MS. HOLLAND responded, "That is correct."

CO-CHAIR KREISS-TOMKINS asked Ms. Holland whether she is the point person at OMB for the executive branch for the process going forward.

MS. HOLLAND answered that she is the person to whom DFS will provide the report and will work with other OMB staff including

the administrative services directors, if additional information is needed.

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

[3:44:27 PM](#)

CO-CHAIR KREISS-TOMKINS 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.

CO-CHAIR FIELDS relayed that he supports HJR 18 as a fiscally conservative approach to ensure the protection of the corpus of the permanent fund and the permanent fund dividend (PFD) for the next generations.

REPRESENTATIVE LEDOUX stated that she does not support HJR 18 because she believes it would lead to smaller PFDs.

REPRESENTATIVE WOOL said that he has reservations regarding HJR 18; however, he is concerned that the Senate will pass an unbalanced budget and the legislature will need to take money from the earnings reserve account (ERA) or the constitutional budget reserve fund (CBRF). He maintained that HJR 18 is needed to ensure financial security.

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CO-CHAIR FIELDS moved to report HJR 18 out of committee with individual recommendations and the attached zero fiscal note.

A roll call vote was taken. Representatives Story, Wool, Fields, and Kreiss-Tomkins voted in favor reporting HJR 18 out of committee. Representatives LeDoux, Vance, and Shaw voted against it. Therefore, HJR 18 was reported from the House State Affairs Standing Committee by a vote of 4-3.

**HJR 7-CONST AM: APPROP. LIMIT; RESERVE FUND**

[3:47:39 PM](#)

CO-CHAIR KREISS-TOMKINS announced that the final order of business would be HOUSE JOINT RESOLUTION NO. 7, Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit; relating to the budget reserve fund

and establishing the savings reserve fund; and relating to the permanent fund.

[3:48:45 PM](#)

CORI MILLS, Senior Assistant Attorney General, Labor and State Affairs Section, Department of Law (DOL), on behalf of the House Rules Standing Committee, sponsor of HJR 7, by request of the governor, began the PowerPoint presentation, entitled "House Joint Resolution 7 Appropriation Limit." She reviewed slide 2, entitled "Current Constitutional Spending Limit (Article 9, Section 16)," which read as follows:

- Limit set at \$2.5 billion, plus inflation and population growth since 1982
  - Calculation for FY20 would be about \$10.5 billion
- Spending subject to cap includes all UGF operating and capital expenditures, most statewide items, plus some DGF items
- Excludes PFDs, bond proceeds, debt service payments, non-State sources of revenue, public corporation revenues, and disaster declarations
- At least 1/3 of limit reserved for capital projects and loans
  - Can break the limit for capital projects, if approved by the voters.

CO-CHAIR FIELDS asked to see a slide showing inflation-adjusted per capita spending for Alaska.

[3:50:20 PM](#)

ED KING, Chief Economist, Office of Management & Budget (OMB), Office of the Governor, on behalf of the House Rules Standing Committee, sponsor of HJR 7, by request of the governor, responded that he has that slide but it is not in the presentation. He offered to provide that slide to the committee.

CO-CHAIR FIELDS asked for confirmation that per capita inflation-adjusted spending is as low today as it was in the late 70s and early 80s.

MR. KING answered that technically that statement is correct, but misleading. He stated that the years following that period were lower, even though the spending today is as low as it was at the time period mentioned.

CO-CHAIR FIELDS asked for confirmation that on a per capita inflation-adjusted basis, state spending is now lower than it has been at most points in time for the last 35 years.

MR. KING responded that the current spending adjusted for inflation and population is higher now than it was in the late 90s and early 2000s.

CO-CHAIR FIELDS asked if that was true on a per capita basis deducting for permanent fund dividend (PFD) payments.

MR. KING replied that PFD payments are not historically considered part of the budget, therefore, are excluded. He said that he would have to re-think the question before answering completely.

CO-CHAIR FIELDS stated that today Alaska spends less money on a per capita inflation-adjusted basis in terms of operations of the government than in most - if not all - years, since the late 70s and early 80s. It demonstrates that the spending cap has not been exceeded, because the state has fiscal discipline. He said that he questions a need for such a cap. Since the high oil price years 2008-2013, the state has engaged in very large budget reductions, and the state's spending is very fiscally constrained.

CO-CHAIR FIELDS added that the information that the governor has presented is neither inflation-adjusted nor adjusted on a per capita basis. He maintained that it is misleading to the public when the governor claims that spending has exploded, when in fact it has not.

[3:53:23 PM](#)

MR. KING proceeded with slide 3, entitled "UGF Spending and Limit History (Inflation Adjusted)," which illustrates the history of the state's inflation-adjusted spending of various types since fiscal year 1975 (FY 75); it includes agency operations spending, debt service payments, and capital spending - all adjusted for inflation. He maintained that during the period FY 05 - FY 13, state government spending increased significantly in response to an increase in revenue. It

exceeded the level of spending during the early 80s, when oil revenues first started to flow into the state. The spending level in the early 80s created the need for the constitutional amendment in 1982.

MR. KING pointed out that the dotted black line in the graph represents the spending limit - also adjusted for inflation - and the green line represents revenues. He noted the correlation between revenues and spending - as demonstrated on the graph - and acknowledged that the correlation is associated more with capital spending than with agency operation spending. He added that agency operation spending did increase during the period of high revenues; it has gotten smaller since that time but is still greater than what it was during the early 2000s.

CO-CHAIR KREISS-TOMKINS asked whether the numbers in the chart are also adjusted for population.

MR. KING responded that the numbers are not adjusted for population. He stated that the question of the necessity of population adjustment is one that should be debated. Increases in population result in a need for increases in government services. For example, more cars on the road require more roads, and more children in school require more teachers; however, economies of scale do exist. He contended that the need is not directly proportional to the population increase. He offered that when population adjustments are made giving credit to the full rate of population growth, the result is that the ability for the government to spend exceeds its need to spend. He pointed out that from FY 85 - FY 05, the spending limit allowed the growth of government, and the population almost doubled, but government spending did not grow in response to the population growth.

CO-CHAIR KREISS-TOMKINS pointed out that the graph gives no accounting for population growth and asked for the rationale behind giving zero recognition for population growth.

MR. KING answered that when economists discuss spending, they are referring to the purchasing power of a dollar - the inflation-adjusted value of a dollar. The graph shows the cost of the same level of government services in today's dollars. He maintained that to adjust for population would be "mixing apples and oranges"; it could be done and may provide some insight and value, but it is not instructive on what the level of government spending should be or what it was. He offered to provide a

chart showing per capita spending but maintained that the trend is similar.

[3:57:23 PM](#)

CO-CHAIR KREISS-TOMKINS referred to Mr. King's statement that population growth may not be instructive regarding the appropriate level of government spending. Representative Kreiss-Tomkins maintained that although there are economies of scale as population grows, he categorically rejects the notion that population growth has no role when discussing the appropriate level of government spending, and he rejects accepting a pure academic economic outlook dictating that only inflation-adjusted dollars count and not the population and its needs. He requested a population-adjusted graph in future presentations.

REPRESENTATIVE WOOL asked for clarification of the comment in the chart that states that the current spending limit did not work. He maintained that the chart shows that the spending neither exceeded the limit nor the revenue.

MR. KING explained that when oil started to flow and revenues more than tripled, government spending also increased. In 1982, the public approved a constitutional amendment to restrict the government from being able to grow at the same rate as revenue. He said that the intent was that the spending limit would be effective in curbing government growth, in the event of future revenue increases. He stated that during the 20-year period [FY 85 - FY 05] in which spending was far below the limit but the limit continued to grow, when there were excess revenues, the limit did not restrict the ability to spend. He said that in the early 1980s, Alaska saw a 260-plus percent increase in government spending; in 2004-2013 there was a similar 260-plus percent increase in government spending. He maintained that if you accept the premise that the spending limit was put in place to limit government spending, then it did not work.

[4:00:42 PM](#)

MR. KING moved on to slide 4, entitled "What if the Proposed Spending Cap Passed before Oil Prices Spiked?" and asserted that if a spending limit had been in place and it was effective in restricting the government from growing, additional revenue of about \$29 billion would be in the permanent fund today, generating about \$6 billion annually under the current percent of market value (POMV) calculation. He offered that the draw

would have been more than adequate to pay for the entire state budget and the permanent fund.

MR. KING turned to slide 5, entitled "Sources of UGF Spending Growth," to identify the sources of the increase in spending. The pie chart [top right of the graphic] reveals that in FY 13, capital spending was \$1.8 billion above the FY 05 level, adjusted for inflation; spending for agency operations was \$1.3 billion above the inflation-adjusted FY 05 level; \$400 million was expended to purchase Alaska's Clear and Equitable Share Act (ACES) credits in FY 05; and the unfunded retirement system [Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS)] liability required an expenditure of \$614 million in FY 05. He concluded that the increase in government spending was due to a combination of factors; almost half was due to capital spending; and significant amounts of growth occurred in agency operations as well.

MR. KING reviewed the sources and increased levels of inflation-adjusted spending in the FY 19 budget compared with the FY 05 budget, as shown in the pie chart [in the lower right of the graphic]. He said that agency operations are \$750 million above the FY 05 level after adjusting for inflation.

REPRESENTATIVE STORY asked for confirmation that the investment in the PERS and TRS retirement systems was about \$3 billion.

MR. KING responded that there was a \$3 billion transfer in FY 15; because it was a transfer, it does not show up on the graphic. He explained that because of that transfer, there was not a retirement contribution in FY 15, and the contribution is smaller in the years after FY 15 because of the reduction in the liability.

REPRESENTATIVE VANCE asked why the charts compare spending to the FY 05 level.

MR. KING referred to slide 3 to point out that in the history of the state's inflation-adjusted spending, FY 05 is the "low water mark"; government spending was as low as it had ever been in inflation-adjusted dollars. He maintained that it is not unreasonable to revert to that level.

[4:04:01 PM](#)

REPRESENTATIVE WOOL maintained that there is a population component, and although the effect of an increase in population

on the need for increased government services is not one-to-one, more people are needed to handle the workload of serving more people in the state. He expressed that there must be a way to scale that component into the spending calculations.

MR. KING offered to present the numbers on a per capita basis. He maintained that it would be informative as far as showing how the level of spending has been changing on a per capita basis but is not instructive on what government should be spending. He stated that as the population grows, government spending would not need to increase \$17,000 per person for every new person coming into the state.

CO-CHAIR KREISS-TOMKINS offered that the difference between "instructive" and "informative" will be a profound distinction for the committee going forward. He maintained that it is the decision of the committee members as to what is instructive and what is informative, considering that the constitutional amendment proposed under HJR 7 would directly limit the power of appropriation of the legislative branch of government.

MR. KING agreed that it was a policy call. He pointed out that education funding, for example, increased by 19-20 percent during a period when the population of students increased zero percent. He maintained that it is a question of not only someone moving to the state, but the services that person requires; therefore, it is not an easy question.

REPRESENTATIVE LEDOUX asked whether the proposed amendment is needed considering the budget passed by the Senate would deplete the funds available for spending.

MR. KING answered that removing the safety net does eliminate one of the tools for addressing increased government spending; however, it would not prevent government growth through taxation, using PFD funds, or increased revenues. He said that although that scenario does put downward pressure on the budget, it doesn't solve the issue addressed under HJR 7.

CO-CHAIR FIELDS referred to HJR 7, page 1, lines 7-11, which read:

Appropriations made for a fiscal year shall not exceed the average of the appropriations made in the previous three fiscal years by more than fifty percent of the cumulative change in population and inflation since January 1 of the previous calendar year, derived from

federal indices as prescribed by law, or two percent, whichever is less.

CO-CHAIR FIELDS asked whether the proposed amendment would lock the state perpetually into fewer dollars per person in terms of appropriation.

MR. KING concurred that government spending would not be able to grow at the rate of inflation and population.

CO-CHAIR FIELDS pointed out that Alaska has an aging population that will cost more; a percentage of that cost would be to the state; and the idea that the state would arbitrarily reduce spending every year regardless of population or needs is "crazy."

REPRESENTATIVE LEDOUX asked if any other state has a constitutional appropriations cap.

MR. KING responded that he does not have that information but would provide it.

REPRESENTATIVE WOOL asked for confirmation as to the period in which the school population did not increase.

MR. KING responded that the school population in Alaska has been relatively stable since 1990 at about 130,000 students.

REPRESENTATIVE WOOL asked, "even though the state population's gone up a few hundred thousand?"

MR. KING answered, "Yes, that's correct."

REPRESENTATIVE WOOL asked, "What about prison population?"

MR. KING replied that he didn't have that information. He confirmed that the segment of population that is growing is the aging population.

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MS. MILLS referred to slide 7, entitled "Appropriation Limit: Section 1(a)" to review the sectional analysis for HJR 7. She pointed out that the decision points in the proposed resolution relate to the baseline that is established. She mentioned that the current constitutional limit is \$2.5 billion, and the growth rate is based on population and inflation. She pointed out that

the baseline did not limit spending. She offered that in the proposed resolution, the baseline is changed from \$2.5 billion to the average of the previous three years of appropriation plus either 50 percent of the change in population and inflation over the course of that year, or 2 percent, whichever is less.

MS. MILLS relayed that the next decision point is contained in Section 1(a)(1)-(8) - the exceptions - those appropriations that are outside of the cap, therefore, do not have spending ceilings. She referred to slide 8, entitled "Illustration of Total Budget and Appropriation Limit," which illustrates those appropriations under the cap and those outside the cap. The expenditures outside the cap include federal funding receipts, PFDs, and other constitutional exceptions. She mentioned that the appropriations excluded from the cap are the same that exist in the current constitution as exceptions, except for capital spending.

CO-CHAIR FIELDS asked for an explanation of "Capital Subject" and "Capital Not Subject" in the slide 8 chart.

MS. MILLS responded by reviewing the exceptions: 1) the permanent fund; 2) disasters; 3) obligations for bonds or general obligation (GO) bonds; 4) re-appropriations; 5) duplications; and 6) money held in trust by the state or received from the federal government for a particular purpose. In response to Representative Fields, she relayed that capital outside the cap is the revenue received through GO bonds and the payment on that debt. She stated that capital within the cap refers to the capital budget items appropriated on an annual basis.

CO-CHAIR FIELDS commented that states with arbitrary appropriation limits have circumvented the limit through bonding; under certain fiscal environments, such as when interest rates are low, bonding may be beneficial, but under other circumstances, bonding may add to the cost of infrastructure, which is one of the absurd outcomes of arbitrary appropriation caps.

MS. MILLS responded that would be a policy call; the administration determined that a vote of the people for GO bonding is the correct way to address large infrastructure projects. She stated that the Senate [Judiciary Standing Committee] amended the companion resolution, [SJR 6], to include an exception for 10 percent up to the cap.

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CO-CHAIR KREISS-TOMKINS asked Ms. Mills to explain the types of designated general funds (DGF) that would be subject to the cap.

MS. MILLS said that DGF generally consists of program receipts - such as fees and licenses - and most all would fall under the cap. She said that they are not distinguished by the proposed appropriation limit; they are not distinguished by the current constitutional appropriation limit; they are all considered appropriations. She said that DGF not subject to the cap are payments of revenue bonds through corporate revenues and university tuition receipts. She reiterated that most DGF are designated for a specific purpose and must be appropriated every year; they would be included under the cap.

CO-CHAIR KREISS-TOMKINS asked for the motivation behind including DGF under the cap.

MR. KING responded that the motivation behind including DGF under the cap is to ensure the effectiveness of the cap and prevent the legislature from circumventing the cap simply by designating funds. He gave an example: vehicle rental tax is collected, put into a special account, identified as designated, and can only be used for parks or tourism. He asked, "What would stop the legislature from doing that same thing with other types of taxes and fees?"

MS. MILLS stated that DGF is only mentioned once in the constitution; it was added in reference to the constitutional budget reserve fund (CBRF). She maintained that DGF and unrestricted general funds (UGF) are not terms used in the constitution, and it is a struggle to discuss revenue using constitutional and not accounting terms.

REPRESENTATIVE LEDOUX asked whether all GO bonds required approval by the people.

MS. MILLS answered, yes. She said it is a separate constitutional provision in Article IX, Section 8, of the Alaska State Constitution, which read as follows:

No state debt shall be contracted unless authorized by law for capital improvements or unless authorized by law for housing loans for veterans, and ratified by a majority of the qualified voters of the State who vote on the question.

REPRESENTATIVE LEDOUX asked Ms. Mills to address revenue bonds.

MS. MILLS stated that a separate constitutional provision allows for revenue bonds; they do not require a vote of the people, only the revenue to support them.

REPRESENTATIVE LEDOUX asked if the state uses revenue bonds; she asked for an example of a revenue bond.

MS. MILLS replied, yes, and that the constitution defines them as a public enterprise or public corporation. She gave examples: Alaska Housing Finance Corporation (AHFC) issues mortgage bonds; and Alaska Industrial development and Export Authority (AIDEA) issues revenue bonds. She said that the specific requirement [for a revenue bond] is that the debt is secured by the revenues that the corporation generates; there must be enough revenue stream to pay them off.

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REPRESENTATIVE LEDOUX asked whether the exception of revenue bonds - bonds that would not require the vote of the people - constitutes a loophole "that you could drive a truck through"? She asked whether the legislature could initiate a tax, and before tax money comes in, support it through a revenue bond.

MS. MILLS replied that the revenues must be revenues that the public corporation is receiving. The legislature cannot surrender its taxation power; therefore, a public corporation could not tax. She stated that there are methods of issuing revenue bonds for an item or program that will generate receipts to pay off the bonds. She conjectured that these are possible opportunities under a stricter spending cap.

REPRESENTATIVE LEDOUX relayed that her point is that if the constitutional amendment is driven by distrust of the legislature not to [refrain from] spending, then that legislature will do whatever possible to finance expenditures excluded by the cap.

MR. KING noted that in the case of revenue bonds issued by a public corporation, the corporation must have the authority to provide a service and generate revenues in the provision of that service. He stated that the revenues must support the bond; therefore, "you can't just 'force' the public into the revenues; you have to sell a product that they're willing to pay for; and

so, it has to be self-sustaining." He added that if the government is subsidizing that public corporation, that subsidy would be within the cap. Only to the extent that the corporation can support itself and the revenue bonds through its own generation of revenue, would it be excluded.

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CO-CHAIR FIELDS suggested that under the revenue bond model, Alaska could have an Alaska Pioneer Home corporation with revenue bonds covering 50 percent of the cost with the remainder subsidized by the state; therefore, only 50 percent of the cost would be under the cap. He mentioned that all the states with arbitrary caps end up with convoluted ways of taxing. He referred to Colorado's response to the taxpayer bill of rights: In Colorado, local government is much more significant in providing public services. Local metro districts were established to tax outside the cap. There were 1,633 metro districts for a combined net of \$19 billion in the State of Colorado. Many districts in the same jurisdiction tax to the cap. Consequently, the spending was the same but done in a very convoluted manner.

MR. KING pointed out that to make such evaluations, one needs to understand what would have happened without the spending limit in place and compare outcomes. He expressed his belief that in all the states with effective appropriation or spending limits, the spending has been more restrictive than states without limits. He stated that even when rules are circumvented, the spending is still limited.

CO-CHAIR KREISS-TOMKINS asked how closely the administration has analyzed Colorado's Taxpayer Bill of Rights (TABOR) Amendment.

[4:24:13 PM](#)

MIKE BARNHILL, Director of Policy, Office of Management & Budget (OMB), Office of the Governor, in response to Representative LeDoux, relayed that the National Conference of State Legislatures (NCSL) website lists 23 states with either a constitutional or statutory appropriation limit, dated 2010. The limits are in a variety of forms. Some states use a percentage of aggregate adjusted gross income within the state as the limit - such as 8 percent or 10 percent of the adjusted gross income of individuals; these are states that use an income tax as a primary form of revenue. Some states, like Alaska, have a base that is adjusted through inflation. He relayed that

in terms of the Colorado experience, there is a fair amount of discussion over the efficacy of the limit; one could view analyses in a variety of ways. The people supporting TABOR - which includes a requirement of a vote of the people to impose a new tax as well as an appropriation limit - point to the economic growth of Colorado since 1992. He maintained that it is an absolute fact that Colorado has grown enormously since TABOR was enacted but acknowledged that it is not known whether that occurred because of TABOR or despite TABOR.

MR. BARNHILL offered that the problem that the administration is attempting to address [with the proposed constitutional amendment] is that Alaska's budgeting is volatile because the revenue source is volatile. There are huge upticks in the price of oil; the budget chases the huge upticks; when oil resets at a lower price - such as in 2015 - it is very disruptive to reset budgeting. He maintained that the state has been in budgeting turmoil for several years, and the administration is proposing through HJR 5, HJR 6, and HJR 7 to "smooth out" the volatility by smoothing out spending.

CO-CHAIR FIELDS cited statistics of the outcomes of an appropriations cap in Colorado from an article, entitled "A Formula for Decline: Lessons from Colorado for States Considering TABOR," by Iris J. Lav and Erica Williams, published by the Center on Budget and Policy Priorities [document not provided]. These statistics read in part as follows:

- Between 1992 and 2001, Colorado declined precipitously from 35<sup>th</sup> to 49<sup>th</sup> in the nation in K-12 spending as a percentage of personal income. As of 2006, the state maintained its low ranking among the states at 48th.
- Colorado's average teacher salary compared to average pay in other occupations declined from 30<sup>th</sup> in the nation in 1992 to a low of 50<sup>th</sup> in 2001, and edging up only slightly to 49th in the nation as of 2007.
- Under TABOR, higher education funding per resident student dropped by 31 percent...
- Tuitions have risen as a result. Between 2002 and 2005, system-wide resident tuition increased by 21 percent...

- Under TABOR, Colorado declined from 23<sup>rd</sup> to 48<sup>th</sup> in the nation in the percentage of pregnant women receiving adequate access to prenatal care...
- Colorado plummeted from 24<sup>th</sup> to 50<sup>th</sup> in the nation in the share of children receiving their full vaccinations...
- At one point, from April 2001 to October 2002, funding got so low that the state suspended its requirement that school children be fully vaccinated against diphtheria, tetanus, and pertussis (whooping cough) because Colorado, unlike other states, could not afford to buy the vaccine.

CO-CHAIR FIELDS stated that these are precisely the absurd set of outcomes that Alaska should seek to avoid.

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MR. BARNHILL responded that he has heard two scenarios regarding Colorado: 1) the spending cap is working and is producing very difficult outcomes, or 2) the spending cap is not working at all. He maintained that "you can't have it both ways." He stated that it either is working, or it is not working.

CO-CHAIR FIELDS offered that what has happened in Colorado is that an inability to provide adequate revenue has produced the outcomes he cited. At the local level, governments have scrambled to adjust to very real needs, and scrambling to adjust results in highly inefficient and absurd structures like multiple metro districts taxing within a region. He maintained that both scenarios can occur at the same time: inadequate support for core infrastructure investment along with government scrambling to do the best it can under impossible circumstances.

MR. BARNHILL stated that the administration is looking for a way - in the context of Alaska - to create control over spending so that the volatility in the budget-making process is reduced. He offered that it is inarguable that Alaska's budget, as shown in the charts, has chased the price of oil. He asserted that fundamentally Alaska needs to "get away from that."

CO-CHAIR KREISS-TOMKINS asked to know the state with a constitutional spending limit that is most comparable to the one proposed under HJR 7.

MR. BARNHILL expressed his belief that there are several states with bases adjusted by inflation and population.

CO-CHAIR KREISS-TOMKINS reiterated that he is asking for a state with a spending cap closest to what is proposed under HJR 7, assuming the administration performed comparative research that went beyond looking just at a basic spending cap but considered all relevant details.

MR. BARNHILL stated that he does not have the answer but would provide the table [from the website] to the committee. He maintained that the intent of the proposed constitutional amendment is to update what Alaska already has, which is the \$2.5 billion base, adjusted by inflation and population.

[4:32:08 PM](#)

REPRESENTATIVE VANCE asked what Alaska's expenditure would be for FY 20 under the cap proposed by HJR 7.

MR. KING responded that the spending allowed under the cap would be about \$5.3-\$5.4 billion; it includes all the UGF and the restricted DGF. He stated that the proposal under HJR 7 is below that limit - a function of the past three years generating a higher average but with a reduced budget. He maintained that the passage of the spending limit does not force budget cuts to occur; that remains the prerogative of the legislature. He added that in this scenario, the limitation would likely be in excess of what the legislature would spend.

REPRESENTATIVE VANCE offered that there would be a gradual rise in spending - up to the 2 percent - rather than spiking with the revenue.

MR. KING responded, "That would be the upper limit." He said that the limit would not require the legislature to cut the budget, but if it elected to spend less, the limit would adjust to the lower level of spending. He added that the limit and the spending would not be detached from each other as currently occurs.

REPRESENTATIVE VANCE referred to slide 8 and asked why the PFD is not included in the cap.

MR. KING replied that the items listed under the cap are expenditures for which the governor wants to limit growth. He wants to limit the growth of government; therefore, it is

included under the cap. He does not want to limit the growth of the PFD, because it is the people's money, should be given to them, and not be subject to the cap.

MS. MILLS clarified that the administration followed the existing constitution; the exceptions are based on what the voters approved in 1982 and reapproved in 1986. She maintained that the proposed constitutional amendment would adjust the baseline and change the limit on capital spending.

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REPRESENTATIVE LEDOUX pointed out that Alaska is included on the NCSL list of states with spending caps, [list not included in the committee packet]. She asked that the states with tighter spending caps be identified - as opposed to ones with "generous" caps such as Alaska's.

CO-CHAIR KREISS-TOMKINS added that identifying the state with a spending cap closest to what is proposed for Alaska under HJR 7 would present an opportunity for him to discuss with that state's policymakers the outcomes and challenges of the spending cap in that state.

REPRESENTATIVE LEDOUX suggested that when oil prices are low - as they are now - the state must forcibly "go on a diet." Consequently, when prices are high, the pent-up demand from municipalities, non-profit organizations, and agencies who have been forced to "go on a diet" results in excess spending. When the oil prices go down again, the state is faced with the pain of budget cuts again. She asked if that is the motivation for the proposed constitutional change.

MR. KING responded, yes. He said that the spending limit would provide stability; the volatility of oil revenues creates the dilemma of government spending following the revenues, as Representative LeDoux described. He maintained that a spending limit would eliminate the upswing in spending; therefore, when oil revenues fall, the state does not have to make the difficult cuts because it did not increase spending originally. He added that stability also comes from the state being able to afford its level of spending: when times are good, the money goes into the savings account; when times are bad, the state can draw on the savings account. He said that the proposed limit would smooth out the volubility to avoid having to make the tough decisions.

[4:38:38 PM](#)

CO-CHAIR FIELDS pointed out that a degree of volatility with respect to capital spending is not a bad thing: 1) the state may want to make counter-cyclical capital investments to reduce the negative impacts of unemployment; most capital investments tend to last a long time, such as the Loussac Library [in Anchorage] built in the 80s. He offered that building a needed structure that lasts 40 years is not an indicator of poor discipline, but of good economic policy.

CO-CHAIR FIELDS stated that his office has received calls from the [Charles and David] Koch brothers' organization Americans for Prosperity (AFP) and asked whether that was at the suggestion or direction of the governor's office or whether AFP made the calls independently.

MR. KING responded that he has no information on that issue.

CO-CHAIR KREISS-TOMKINS relayed that the people making the calls were very confused and would benefit from additional information on HJR 7.

MR. KING stated that there is nothing under the spending limit that would prevent counter-cyclical capital investments; however, they would need to occur through bonding. He said that the bonding process would smooth out the construction cycle. There are fixed payments on the bonds, and the bonds are issued according to need.

CO-CHAIR FIELDS relayed that he would support GO bonding currently due to the [low] interest rates but pointed out that GO bonding has a much longer timeframe, because it must go to the voter for approval. Some environments are financially prudent for GO bonding given low interest rates; in other environments, borrowing money would not be prudent due to high interest rates. He maintained that flexibility is important.

CO-CHAIR KREISS-TOMKINS mentioned that there is a robocall service generating automatic voice mails to the email and message boxes of the members of the committee. The emails are being sent from an "alaska.gov" domain. He stated that he has never experienced this before from the executive branch and wants more information at the next hearing on how the governor's office is engaging on the proposed constitutional amendments and how this activity is being funded.

REPRESENTATIVE LEDOUX maintained that she has no problem with the legislature or governor asking people to send in support for an issue. She said that she does have problems with voicemails from people claiming to be her constituents who are not. She stated that it would be more effective for those people to contact their own legislators.

CO-CHAIR FIELDS asserted that he has no objection to the governor using a "bully pulpit" but does have an objection to the function [of contacting legislators for support] being controlled by an outside dark money-funded organization.

[4:42:34 PM](#)

REPRESENTATIVE VANCE asked, "Could we please remember that they are representing the Department of Law (DOL) and probably not communications of the governor?"

CO-CHAIR KREISS-TOMKINS expressed that he recognized that no one present has the answer but would like more understanding on the question.

MS. MILLS referred to slide 9, entitled "Appropriation Limit: Section 1(b) and (c)," to explain the two new sections under the proposed constitutional amendment. She stated that when volatility in government spending is reduced and a more stable sustainable level of government spending is achieved, the excess revenues would go into savings. She reviewed the "savings waterfall" described on slide 7, which read as follows:

- Excess revenues would automatically be deposited into savings accounts in priority order

Total amount in general fund that is "unexpended, unobligated, and unappropriated" (i.e., excess revenues)

Priority #1: Pay back the permanent fund principal 50% of the income that was deposited into the ERA that fiscal year

Priority #2: [if money remains after priority #1] Get savings reserve fund balance up to appropriation limit (formerly the CBR)

Priority #3: [if money remains after priority #2] Put money into permanent fund principal to continue growing the fund

CO-CHAIR KREISS-TOMKINS asked for clarification of Priority #1 of the savings waterfall and asked for an example.

MS. MILLS gave an example: The permanent fund produced an income of \$4 billion in the last year. Out of that amount, \$2 billion of the excess revenues - or 50 percent of the income earned by the permanent fund - would be transferred to the principle of the permanent fund. The intent is to replace the income that was expended, because the calculation for the PFD is 50 percent of statutory net income.

[4:46:20 PM](#)

CO-CHAIR KREISS-TOMKINS asked for confirmation that under the proposed constitutional spending limit, if high oil prices resulted in surplus UGF, the extra revenue would go into the principle of the permanent fund up to \$2 billion.

MS. MILLS replied, "That's accurate." She added that if there was even greater excess, the state would execute Priority #2 - transfer money to the savings reserve fund - then Priority #3 - transfer any amount left over to the permanent fund.

CO-CHAIR KREISS-TOMKINS relayed that most years the [stock] market is favorable; under the proposed constitutional spending limit, almost all surplus revenue would go back into the principle of the permanent fund, resulting in ever bigger dividends.

MR. KING concurred.

CO-CHAIR KREISS-TOMKINS asked what the size of dividend would be under projected market conditions 20 years from now.

MR. KING stated that the question is challenging because there are so many variables. He said that under the baseline assumption, the principle would grow only with inflation, because there is not a projected surplus in any of the next 20 years. He added that only with volatility would there be occasional additional revenues subject to the waterfall; and in most of those instances there would be insufficient funds to advance beyond Priority #1.

CO-CHAIR KREISS-TOMKINS restated that under the model proposed by HJR 7, water never "spills" through the waterfall described on slide 9.

MR. KING agreed that it would be very rare. Only when oil prices are high and investment returns are low would there be a deposit in the CBRF.

[4:49:02 PM](#)

REPRESENTATIVE VANCE asked why putting money back into the corpus is prioritized before putting money into savings. She mentioned that often surplus years are followed by lean years. She suggested that if savings are replenished only under Priority #2, the state would not have adequate savings from which to draw during multiple lean years.

MR. KING responded that it was a policy decision to return excess revenues to the permanent fund, since the PFDs would be paid out of the permanent fund. He said that his calculations reveal that very often the CBRF is insufficient to weather volatility and suggested that the administration would entertain an amendment on that point.

REPRESENTATIVE VANCE asked for confirmation that under the proposed constitutional amendment, any excess revenue would be subject to the savings waterfall; it would be the only mechanism for putting money into savings.

MR. KING answered that the prerogative of the legislature would still prevail; if it chose to put money into savings, it could, and transfers to savings accounts are excluded from the cap. To the extent that there are additional funds in excess of the limit and the legislature did not voluntarily put money into savings, the excess funds would be subject to the savings waterfall.

REPRESENTATIVE VANCE asked for confirmation of her understanding as follows: the legislature spends to the cap; there is excess money; the legislature could put money into the savings account; any additional money would be subject to the savings waterfall.

MR. KING concurred.

MS. MILLS referred to page 2, line 13-14, of HJR 7, which states in part "of money to a State savings account or fund that requires a subsequent appropriation."

REPRESENTATIVE LEDOUX asked for confirmation that the legislature could put any amount into the savings account before putting it into the corpus.

MS. MILLS answered, "Correct." She added that doing so would be one of the exceptions and could be done before determining the amount of excess revenues.

[4:52:36 PM](#)

CO-CHAIR FIELDS relayed the top solutions identified by business leaders for balancing the state budget as ascertained through a recent poll by the Southeast Conference ["Southeast Alaska Business Climate Survey Results 2019," not included in the committee packet]: 1) reduce oil tax credits; 2) reduce individual PFD payments; 3) increase the POMV from the permanent fund used to pay for state services; 4) institute a state-wide income tax; and 5) increase corporate taxes.

CO-CHAIR FIELDS referred to a memo from the Anchorage Economic Development Corporation (ADEC) to Governor Michael J. Dunleavy, Speaker of the House Bryce Edgmon, and President of the Senate Cathy Giessel (dated 4/3/19, not included in the committee packet), which read in part as follows:

We strongly support a balanced approach between targeted necessary cuts, new *board-based sources* of revenue, and the Permanent Fund. The AEDC Board believes this is the only way that the state and local economy will achieve the fiscal stability required for promoting new investment and expansion of existing business and ask for your consideration.

CO-CHAIR FIELDS noted that HJR 5, HJR 6, and HJR 7 do not represent a balanced approach, do not align with what the business groups have requested, and are not consistent with what the legislature has heard from Alaskans who have participated in the process of reaching out to the House finance committees.

MS. MILLS clarified that HJR 7 does not prevent the legislature from taking a POMV approach; it supports the [legislature's] policy goal of growing the permanent fund to fund PFDs and government; and it does not address taxes.

CO-CHAIR KREISS-TOMKINS asked for clarification regarding the use of the permanent fund to pay for government expenditures.

MS. MILLS responded that the assumption under HJR 7 is that there would be a statutory POMV draw from the permanent fund, and any draw from the permanent fund would be transferred to general funds (GF) and subject to the spending cap. She maintained that HJR 7 would not restrict money spent from the CBRF.

[4:55:03 PM](#)

MS. MILLS referred to slide 10, entitled "Appropriation Limit: Sections 2, 3, and 5," and relayed the process by which the proposed resolution would change the CBRF. It would change the name to "savings reserve fund"; the sources of payments into the fund would be tax and royalty settlements and the portion of excess revenues based on priorities in the new appropriation limit; the "sweep" - return of remaining GF money every year to CBRF pursuant to Article IX, Section 17(d), of the Alaska State Constitution - would be repealed; and the "reverse sweep" - deposit of that money right back into GF by a three-quarters vote - would be unnecessary. She explained that HJR 7 would repeal the sweep, because there would be a new way of saving through the savings waterfall, and it would repeal the three-quarters vote allowance for any public purpose. She continued by saying that alternately, HJR 7 would allow the legislature to access the savings reserve fund by majority vote to the extent necessary to fill the gap between revenues in GF and the appropriation limit; the goal would be to have enough money to pay for one year's budget and avoid the massive cuts of the previous few years.

CO-CHAIR KREISS-TOMKINS referred to slide 5 and asked for the distinction between "base operations" and "operations growth."

MR. KING relayed that base operations are the operations that were in effect in FY 05 and growing with inflation. He explained that in the chart, the black bars represent the FY 05 operations spending plus inflation over time [FY 05 - FY 19], and the red bars represent the spending that did occur in excess of the inflation-adjusted amount.

CO-CHAIR FIELDS asked for the percentage of the spending that was due to the simple growth in the cost of healthcare.

MR. KING responded that a significant amount of the spending was attributable to healthcare, although he does not know the percentage.

[5:00:19 PM](#)

REPRESENTATIVE WOOL referred to slide 5 and asked to know the trend of the average per capita income over the period represented in the chart.

MR. KING acknowledged that both salary and benefits increased by more the rate of inflation over the period. He offered to provide a chart demonstrating the distinction between the growth of income versus the growth in the number of employees, relative to population.

REPRESENTATIVE VANCE asked to know what could happen if no spending cap were enacted.

MR. KING replied that the greatest fear is that government would continue to grow faster than revenues, and without limitation on the growth of government, the savings reserve fund and the PFD would disappear.

CO-CHAIR KREISS-TOMKINS stated that HJR 7 would be held over.

[5:03:34 PM](#)

#### **ADJOURNMENT**

The House State Affairs Standing Committee meeting was recessed at 5:03 p.m. to a call of the chair.

[The meeting never reconvened.]