

SENATE FINANCE COMMITTEE  
April 10, 2019  
9:01 a.m.

[9:01:28 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Natasha von Imhof, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Click Bishop  
Senator Peter Micciche  
Senator Donny Olson  
Senator Mike Shower  
Senator Bill Wielechowski  
Senator David Wilson

MEMBERS ABSENT

Senator Lyman Hoffman;

ALSO PRESENT

Juli Lucky, Staff, Senator Natasha von Imhof; Senator Chris Birch; Senator Cathy Giessel; Senator Mia Costello; Senator Gary Stevens.

SUMMARY

SB 103 PFD APPROPRIATIONS

SB 103 was HEARD and HELD in committee for further consideration.

SB 104 APPROPRIATION LIMIT

SB 104 was HEARD and HELD in committee for further consideration.

#sb104

SENATE BILL NO. 104

"An Act relating to an appropriation limit; relating to the budget responsibilities of the governor; and providing for an effective date."

9:04:20 AM

CO-CHAIR NATASHA VON IMHOF, SPONSOR, explained the bill. She shared that there was already a spending cap in the constitution. She noted that the governor had introduced Senate Joint Resolution 6, which was a spending cap amendment. She remarked that any constitutional amendment would go before voters in 2020; this legislation would provide a more immediate solution. She spoke to the PowerPoint presentation related to the bill (copy on file).

Co-Chair von Imhof looked at Slide 1, "Why a Spending Cap?"

1. Restrain the growth of the state budget over time
  2. Save during the good times so we have a backstop for the tough times.
- Spending Cap aka: TEL (Tax and Expenditure Limit)

She said that her research had shown that states with successful spending caps also had spending mechanisms in place to bridge periods of revenue downturns; Alaska has the Constitutional Budget Reserve (CBR). She shared that a 2010 report from the National Conference of State Legislatures described how Colorado's Taxpayer's Bill of Rights (TBR) initially allowed excess revenue collected above the cap to be refunded to voters. However, after the severe economic downturn in 2001 and 2002, when Colorado experienced significant revenue shortfalls, there was no account to provide a buffer and a recession soon followed. In 2005, Colorado voters approved a legislative referendum to forego the projected mandatory tax refunds and instead kept surpluses in a savings account to provide a fiscal buffer when revenue shrank. She reiterated that Alaska has the CBR, which needed to be funded during years of excess revenue to fund the state when the need arose.

Co-Chair von Imhof addressed Slide 2, "Five Decision Points:"

1. Starting Point
2. Growth rate

3. What is included under the cap
4. What is excluded outside the cap
5. What do we do with excess revenue

She explained that the plan for excess revenue was not in the bill but was an important issue to address. She hoped that the meeting would result in a deeper understanding of the pros and cons for each decision point, to think about how different options might make sense under a wide variety of circumstances, and to understand the pros and cons of a spending cap in statute versus in the constitution.

[9:07:46 AM](#)

Co-Chair von Imhof highlighted Slide 3, "What are other states doing?" She noted that there was a mix within the states that had a tax and expenditure limit (TEL) in place. She said that as of 2015, 28 (represented in blue, pink and yellow) states had a TEL. The black states did not have a TEL, and of the colored states on the map, 17 had a limit in their constitution, 11 in statute. She said that the difference between putting it in the constitution versus statute was the level of flexibility over time.

[9:08:19 AM](#)

Co-Chair von Imhof highlighted Slide 4, "Looking back." She relayed that the slide showed the historical levels, since 1980, when the current constitutional spending cap began, and oil became a major contributor to state revenue. The orange line was the unrestricted general fund (UGF) spending, plus the permanent fund dividend (PFD). The green line was the UGF revenue, plus the PFD.

[9:08:46 AM](#)

Co-Chair Stedman asked for a definition of UGF and how it could be manipulated by the legislature.

[9:09:05 AM](#)

Co-Chair von Imhof explained that UGF was revenue that could be used by the legislature to appropriate to anything. She added that there were other federal funds and designated general funds (DGF) that were generally directed to a specific area.

[9:09:58 AM](#)

Co-Chair Stedman clarified that UGF were the fund that could be used for general expenditure in the budget to meet the state's fiduciary obligations and were flexible and could be moved as the legislature deemed fit.

[9:10:06 AM](#)

Co-Chair von Imhof continued to discuss the slide. She said that for approximately 25 years, revenue and spending did not fluctuate very much. She continued that in 2005, revenue and spending experienced wild swings, resulting in 13 years of chaos. She relayed that in that time revenue spiked high and spending jumped up accordingly. She furthered that in 2012, revenue went into a free-fall for 6 years, during which time \$13 billion of the CBR was spent to offset budget deficits. She noted the jump in revenue in 2019, due to the passage of SB 26.

[9:11:07 AM](#)

Senator Micciche was curious about the green line and whether the PFD earnings were factored in.

[9:11:24 AM](#)

Co-Chair von Imhof replied that UGF plus PFD meant that on top of the permanent fund, the amount of money that was used to pay the PFD had been added.

[9:11:38 AM](#)

Co-Chair Stedman understood that the PFD had been added on top of the UGF.

[9:11:44 AM](#)

Co-Chair von Imhof agreed.

[9:11:50 AM](#)

Co-Chair von Imhof related that calculations showed that if the state had had an effectual spending cap in place from 2005 to 2018, more would have been saved in high revenue years, and less spent out of the CBR in low revenue years, and a total of \$15 billion would have been retained in the

CBR. She felt that the take-away was that it was important to have a savings account to provide a buffer, as well as an effectual spending cap.

[9:12:37 AM](#)

Co-Chair von Imhof addressed Slide 5. She explained that the grey line represented the current constitutionally mandated spending cap. She said that under the status quo, UGF spending will be \$10 billion in 2020. She believed that the rate was too high. She noted the dark grey line along the bottom of the graph that showed population growth. She pointed out that growth had been steady. The dark blue line reflected the SB 104 limit. In the graph the dark blue line had been modeled backwards and forwards to see what an effectual spending cap would look like had it been in place. She said that the growth rate of the cap was the last five-year trailing consumer price index average. The green dotted line was the estimated revenues published in the current Spring Revenue Source Book, it appeared that revenues were estimated to remain steady over the next five years. She stated that the current spending cap illustrated why long-term growth rates, left untouched, could become very large. She stressed that the growth rate mattered and would have to contend with Compound Annual Growth Rate (CAGR). She discussed CAGR. She asserted that revenue and expenditure projections were not based on the same things; revenue in the state, or oil prices, were not based on inflation but on supply and demand, technology, and global politics. The market value of the permanent fund, under SB 26, was based on the value of stocks, bonds, real estate, supply and demand, consumer confidence, and global free market forces (green line). She furthered that the orange line, or expenditures, was based mainly on federal matching, federal mandates, and politics. She believed that an effectual spending cap would have been helpful during FY 05 and FY 18, assuming there had been the political will to follow it. She warned that compound annual growth rate was a mathematical calculation that had economic consequences when it was inside a spending cap and she recommended periodic reevaluation of any spending cap that was put in place, regardless of whether it was in the constitution or in a statute.

[9:17:02 AM](#)

Senator Olson asked whether the sponsor had plans for the surplus revenue that could be generated by implementing a spending cap like Colorado.

Co-Chair von Imhof thought the issue should be had at the table. She said that past proposals that suggested a certain percentage of excess revenue could go towards capital, savings, and perhaps a dividend.

[9:18:19 AM](#)

Co-Chair Stedman reminded the committee of a decade between the late 80s and through the 90s when Capital Budgets were flattened due to tight revenue which had led a substantial deferred maintenance buildup in the state. The buildup had resulted increased in the Capital Budget as revenue increased in the early 2000s. He wondered how the spending formula would affect the ability to deal with deferred maintenance.

[9:19:03 AM](#)

Co-Chair von Imhof replied in years of surpluses money would be put in the CBR to use for years when the market forces were not favorable.

[9:20:56 AM](#)

Senator Wielechowski queried the penalty if the legislature exceeded the appropriation limit.

[9:21:10 AM](#)

Co-Chair von Imhof replied that she had not come across that information in her research. She thought that it was up to the committee to discuss whether the legislature could exceed the cap with a three-quarter vote.

[9:22:17 AM](#)

Senator Wielechowski argued that the legislature could ignore the statute in much the same way it ignores the constitutional provision for a 90-day legislative session.

[9:22:26 AM](#)

Co-Chair von Imhof offered that other states exercised threshold votes to override statutes.

[9:22:31 AM](#)

Senator Micciche noticed that the bill did not add an exclusion on capital spending. He asked whether the sponsor could be open to tighter reigns on capital spending outside of the exclusion.

[9:24:10 AM](#)

Co-Chair von Imhof replied that capital matching funds had been paid out of UGF over the past several years. She said that she was attempting to keep the Capital Budget at \$150 million for FY 20, that would allow for federal matching funds, limited deferred maintenance, and several new capital items. She said that the constitution stated that any new Capital Budget must communicate to the legislature what the ongoing costs would be in subsequent years.

[9:25:56 AM](#)

Senator Wielechowski understood that the appropriation limit would be \$5 billion and would include the PFD at \$1.9 billion.

[9:26:05 AM](#)

Co-Chair von Imhof replied in the affirmative. She pointed to the green line on Slide 5 and relayed that an amount had to be chosen to put in the bill. She offered a brief explanation of that process.

[9:26:26 AM](#)

Co-Chair von Imhof looked at Slide 6.

[9:27:19 AM](#)

Co-Chair von Imhof highlighted Slide 7, "Expenses as a comparison." [Secretary Note: Slides 6 and 7 are not in backup and were not provided to the committee]

[9:27:47 AM](#)

Senator Bishop asked whether it would be possible to take Slides 4 and 5 and model them with the 50/50 dividend split.

[9:28:07 AM](#)

Co-Chair von Imhof agreed to provide that information.

[9:28:14 AM](#)

Co-Chair Stedman said that the legislature had the ability to increase expenditures, and drive the economy, through the Capital Budget. He said that certain past Capital Budget had been in response to the declining national and international economy to keep Alaska out of the recessions. He said that Capital Projects were funded throughout the state that had kept Alaska out of harms way during the Great Recession. He wondered how the same thing could be done under SB 104.

[9:30:33 AM](#)

Co-Chair von Imhof thought that the decision could be made by the legislature to slightly increase the budget over the spending cap after weighing the risk. She asserted that the spending cap could give the legislature a guideline.

[9:32:00 AM](#)

Co-Chair Stedman felt that the committee should closely examine the capital budget. He noted that in the 90s the budget was flat, like the current budget. He warned that capping the capital budget at \$150 million would be too low and would limit the state's ability to invest in state infrastructure outside of federal support.

[9:33:18 AM](#)

Senator Micciche thought that the state was victim to investment growth versus inflation. He thought that the problem was when getting so far out of moderation that the spend above the spending cap could cause a recession. He suggested moderating capital spend to level out the long-term effects. He expressed the desire to talk about a percent over UGF spend for capital, which would moderate the spend while allowing usage of stimulus and the building of necessary infrastructure.

[9:34:39 AM](#)

Co-Chair Stedman mentioned two major budgetary distortions: oil tax credits that were paid out and retirement liability. He thought that when those distortions had a financial impact that should be considered when structuring policy.

[9:35:02 AM](#)

Senator Bishop added on a positive distortion note, the additional inflation proofing payments that had been made to the PFD for approximately \$6 billion.

[9:35:25 AM](#)

Co-Chair Stedman agreed that the legislature had historically added funds to the constitutionally protected portion of the fund and could add more in the future.

[9:35:36 AM](#)

Senator Wielechowski relayed that the constitutional appropriation limit specifically excluded appropriations for PFDs and expressed concern with their inclusion. He wondered whether having a limit of \$5 billion, with a statutory PFD that costs \$1.9 billion, left \$3.1 billion in UGF. He thought that this would create a situation where future permanent cuts to the PFD, or government, would be locked in. He considered that the PFD should be excluded from the number set for the cap.

[9:37:03 AM](#)

Co-Chair Stedman asked for clarity concerning the pros and cons of excluding, or including, the PFD.

[9:37:19 AM](#)

Co-Chair von Imhof retorted that the POMV was used to pay the PFD. She argued that it would be unwise moving forward, to take extra money from the ERA, thereby depleting it, to pay a large dividend based on the current statutory calculation. She said that the second option was to spend what was available. She stressed that she was interested in a spending cap that matched the green line on Slide 5. She thought that thought choices needed to be made: either the

state could cut teachers, troopers, and health care professionals to pay a \$3000 dividend, or a balance could be found that paid a reasonable dividend as well as a reasonably sized budget that funded core government services. She related that this would require a recalculation to the dividend going forward. She noted that the material change was the passage of SB 26.

[9:39:15 AM](#)

Senator Shower touched on the broader topic of taking the ERA out of play and putting it into the corpus under the POMV model.

[9:40:00 AM](#)

Co-Chair von Imhof responded that the APFC had testified that the PFD was the only sovereign wealth fund endowment or foundation that has an accounting with an ERA and a corpus. She shared that all other endowments and foundations had one account and the percentage endowment payment came from that one account. With the passage of the POMV it made sense to incorporate the ERA and the corpus into one large account and ask the head of the APFC to manage the percentage draw overtime.

[9:41:16 AM](#)

Senator Shower expressed concern for a statutory spending limit when there was already a constitutional spending limit. He said that the problem with a statutory spending limit was the rule of 21 and 11 vote. He said that there was a propensity in the legislature to ignore statutes that it did not like. He asked whether a statutory spending limit would even be effective.

[9:42:55 AM](#)

Co-Chair von Imhof said in 1982 there had been a 4-year check in and the voters got to check in in 1986. She wondered whether a periodic check in with voters on the constitutional spending cap could be effective. She added that currently, if SJR 6 were in place, voters would not vote until 2020, leaving no solution in the meantime. She suggested that with a statute it could be on the books for several years as a trial run, then voters could on a constitutional amendment in 4 years.

[9:43:49 AM](#)

Senator Wielechowski did not want the public to be left with the perception that the only solution to the state's budget problems was the PFD versus cuts. He argued that those were not the only options. He said that a solution could be found in cutting deductible oil tax credits, which costs the state \$1.25 billion. He argued that a statutory PFD could be paid out if the legislature considered other available options.

[9:44:42 AM](#)

Co-Chair Stedman thought that the potential rise of the state's pension obligation should be considered while working thorough the factors on the model.

[9:45:26 AM](#)

Senator Bishop agreed. He relayed that the unfunded liability of the pension plans was currently underfunded by approximately 30 percent.

[9:46:23 AM](#)

Senator Wilson wondered about putting forward a bill that excluded the PFD and added a sunset date of 2020. He suggested a bill that mirrored SJR 6, with a sunset date included.

[9:47:21 AM](#)

Co-Chair von Imhof rebutted that she preferred her bill over SJR 6.

[9:47:43 AM](#)

Co-Chair Stedman thought that the bill would be modified by committee after modeling and sensitivity analysis by the Legislative Finance Division.

[9:48:45 AM](#)

Senator Micciche stated that he liked aspects of both pieces of legislation.

[9:49:06 AM](#)

Co-Chair Stedman asked Senator Micciche to define SJR 6.

[9:49:12 AM](#)

Senator Micciche replied that SJR 6 was the governor's spending limit that was being worked on in another committee. He asserted that there was no way to deny inflation. He supported not allowing growth in government and a safety valve on capital spending. He thought that without a statutory limit it was challenging for the legislature to stay within the constitutional limit. He admitted that the legislature did not always follow statutes and thought that this issue warranted further discussion.

[9:51:09 AM](#)

Senator Shower highlighted that some of the things under discussion at the table had been addressed in resolutions that had been filed and would be discussed in committee.

[9:52:09 AM](#)

Co-Chair Stedman reiterated that LFD would craft presentations and projections to aid in future discussions on spending limits. He noted that the vote hurdle for a statutory bill was lower than the hurdle for a constitutional amendment.

[9:53:12 AM](#)

JULI LUCKY, STAFF, SENATOR NATASHA VON IMHOF, discussed the Sectional Analysis (copy on file):

**Sec. 1:** Amends AS 37.05.540(a) by deleting a reference to the existing statutory appropriation limit that is repealed by this bill.

**Sec. 2:** Enacts a new AS 37.05.545 - Appropriation Limit.

(a) Establishes the parameters of the limit:

□ Includes all Unrestricted General Fund (UGF) appropriations for agency spending, Permanent Fund dividends, retirement obligations, and capital projects. Does not

include reappropriations, federal funds, Designated General Fund (DGF) spending, program receipts, money received from nonstate sources for specific purposes, or the exclusions listed in (b).

□ Starting point is \$5 billion for FY 2021, with a growth rate based on the average of the previous five-year's inflation. This rate was chosen because it provides a more stable rate than an annual inflation adjustment.

(b) Lists the exclusions to the appropriation limit:

- (1) Appropriations to the Permanent Fund principal (corpus);
- (2) Debt payments;
- (3) Disaster funding; and
- (4) Deposits into savings accounts and transfers into accounts that require additional legislative action to spend.

(c) Defines the terms "unrestricted general fund" and "program receipts" for the purposes of this section.

**Sec. 3:** Adds a requirement to AS 37.07.020 that the governor submit, along with the annual budget, a report noting whether the proposal is within the spending limit. The report must be updated to include any supplemental appropriations and budget amendments.

**Sec. 4:** Repeals the current statutory appropriation limit, specifically AS 37.05.540(b); 37.05.540(c), and 37.04.540(e).

**Secs 5 - 7:** Applicability, transition, and effective date language that specifies when the new appropriation limit and reporting requirements would take effect. The limit would apply to the FY2021 budget and the governor would be required to file the necessary reports for the proposed budgets starting in December 2019.

[9:56:53 AM](#)

AT EASE

[9:57:16 AM](#)

RECONVENED

[9:57:20 AM](#)

Senator Micciche attempted to make a motion.

[9:57:28 AM](#)

AT EASE

[9:58:27 AM](#)

RECONVENED

[9:58:43 AM](#)

Senator Micciche pointed out that there was nothing in the bill that considered designated general funds (DGF). He spoke of a past conversation concerning voluntary increases where Alaskans picked up a part of state spending, such as University tuitions. He lamented that the administration had been lumping the funding sources all together leaving the committee to explain the difference. He asked Co-Chair von Imhof to explain why DGF might become a valuable tool in managing state budgets moving forward as Alaskans volunteered to pick up some expenses.

[9:59:44 AM](#)

Co-Chair von Imhof related that UGF had been chosen for the spending cap if the University increased its tuition so that the tuition receipts would go to the University and nowhere else.

[10:00:13 AM](#)

Senator Micciche shared that he often explained UGF to constituents as the amount that would come out of the publics pocket if the state could not pay. He appreciated that DGF specifically paid for programs and he supported that it was not part of the spending limit.

[10:00:56 AM](#)

Senator Wielechowski asked whether the current statutory budget limit, AS 37.05.540, had ever been violated.

[10:01:09 AM](#)

Ms. Lucky understood that the existing in statute had not been violated.

[10:01:47 AM](#)

Co-Chair Stedman repeated the LFD would be before the committee to provide details on the current spending cap and the proposed cap.

[10:02:17 AM](#)

Ms. Lucky clarified that she would make the most current graph crafted by LFD available to the committee.

[10:02:26 AM](#)

Co-Chair Stedman said that a robust discussion would take place on the issue. He was hopeful that a solution was possible.

[10:02:53 AM](#)

Senator Bishop noted that the bill was a Senate Finance Committee bill and that the entire committee was working together on the issue.

[10:03:15 AM](#)

Co-Chair von Imhof stated that a spending cap was very important to the governor and she sincerely hoped to deliver a spending cap that all parties could support.

SB 104 was HEARD and HELD in committee for further consideration.

[10:04:31 AM](#)

AT EASE

[10:07:47 AM](#)

RECONVENED

Co-Chair Stedman handed the gavel to Co-Chair von Imhof.

#sb103

SENATE BILL NO. 103

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

[10:08:15 AM](#)

Senator Micciche MOVED to ADOPT the committee substitute for SB 103, Work Draft 31-LS0654\U (Nauman, 4/9/19).

Co-Chair von Imhof OBJECTED for discussion.

[10:08:35 AM](#)

CO-CHAIR BERT STEDMAN, SPONSOR, explained the committee substitute.

Co-Chair von Imhof WITHDREW the OBJECTION. There being NO OBJECTION, it was so ordered.

[10:10:23 AM](#)

Co-Chair Stedman said that the bill would take the percent of market value and adjust the split, or which portion went to the PFD, and which portion went to other expenditures or was reinvested back in the fund.

Co-Chair Stedman explained the Sectional Analysis (copy on file):

**Sec. 1 & 2:** Removes from AS 37.13.140(a) the 1982 formula for calculating the amount available for distribution and leaves the Net Income language for accounting purposes.

Adds language to AS 37.13.140(b), the Percent of Market Value (POMV) calculation for the Permanent Fund draw, stating that the amount for appropriation cannot exceed the balance of the Earnings Reserve Account (ERA).

Section 1 inserts the language into current statute; Section 2 is necessary to accommodate the delayed effective date of the same statute when the POMV draw rate "steps down" effective July 1, 2021 (Fiscal Year 2022).

**Sec. 3:** Amends AS 37.13.145(b) to enact the "split" of the POMV draw: 50 percent to dividends and 50 percent to the general fund.

**Sec. 4:** Conforming: AS 37.13.145(c) states that inflation proofing payments may not be used to increase the value of Amerada Hess subaccount. Sec. 4 makes technical changes in this statute to conform with changes made by this bill.

**Sec. 5:** Conforming: AS 37.13.145(d) states that funds from the Amerada Hess settlement cannot be used for dividends. Section 5 makes technical changes in this statute to conform to changes made by this bill.

**Sec. 6:** Conforming: AS 37.13.300(c) states that net income from the Mental Health Trust Fund is not included in calculations for the Permanent Fund. Section 6 makes technical changes in this statute to conform to changes made by this bill.

**Sec. 7:** Conforming: AS 37.14.031(c) states that the computation of net income of the Mental Health Trust Fund shall be computed in the same way as the Permanent Fund. Since the POMV split makes the net income calculation for the Permanent Fund obsolete, section 7 replaces the reference with a net income calculation.

**Sec. 8:** Conforming: AS 43.23.025(a) defines the formula for calculating individual dividends once the amount available for appropriation is known. Section 8 makes technical changes to conform to changes made by section 3 of this bill.

**Sec. 9:** Conforming: Repeals statutes that are no longer needed: AS 37.13.145(e) & (f), which limit the draw to the net income calculation being repealed in this bill.

**Sec. 10:** Effective date for Section 2 of this bill.

[10:15:29 AM](#)

Senator Wilson asked about the language in Section 3, and the use of the word "may" rather than "shall".

[10:16:03 AM](#)

Co-Chair Stedman replied that the language was suggested language, and that the committee could weigh in on how restrictive or broad the language should be.

[10:16:30 AM](#)

Senator Wilson felt that stronger language would assure that the rules were followed.

[10:17:13 AM](#)

Co-Chair von Imhof interjected that the word "shall" could connote a dedicated fund, which was potentially unconstitutional.

[10:17:25 AM](#)

Senator Wielechowski was curious about the 2018 effective date.

[10:17:39 AM](#)

Co-Chair Stedman said that the effective date concept considered budget cycles. He relayed that he was open to all discussions and possible committee changes.

[10:18:40 AM](#)

Co-Chair Stedman discussed the presentation, "Senate Bill 103; Senate Finance Committee; April 10, 2019" (copy on file). He looked at Slide 2:

The Permanent Fund was established in 1976 by a vote of the people to save a portion of Alaska's mineral wealth for future generations and limit overspending by the legislature.

[10:19:14 AM](#)

Co-Chair Stedman highlighted Slide 3:

The Permanent Fund is an Alaska success: current value of \$64 billion from a total contribution of \$40.4 billion.

Co-Chair Stedman said that chart showed the growth of the permanent fund overtime. The top bar represented the ERA.

He shared that the state has a formula driven dividend, established when the portfolio was smaller. The portfolio had grown overtime to over \$60 billion. The formula took the 5-year average of gains and losses and net income to pay out a dividend to every resident of the state. He said that the passage of SB 26 had created a linking problem between how the dividend was calculated and how the POMV was drawn. A Strong bull market resulted in bigger dividends and currently the formula targeted a \$3000 dividend, which took a substantial percentage of the POMV draw. He said that the dividend today, after a decade long bull market, took a bigger portion. He directed committee attention to 2008, 2009, 2010, and recalled conversations then over concern about the declining financial markets and possible politics involved in the management of the PFD at that time. He noted that in 2003 the gold bar on the chart nearly disappeared. He stated that looking over the past several years, a historical distortion could be seen of a massive ERA driving a large dividend. He shared that the hope was to create a "smoothing" of the dividends and the cash flow to the general fund, when it was needed. He said that the smoothing mechanism looked back over the past 5 years, averaged the market value, then took 5.25 percent to pay out dividends and or state core services. He said that stretching out 5 years helped reduce volatility in the cash flow. He said that the smoothing made the dividend more stable.

[10:25:17 AM](#)

Co-Chair Stedman addressed Slide 5, "The ERA is variable and uncertain. By its nature it lacks the stability to be relied upon for budget stabilization."

Co-Chair Stedman pointed to 2009, when there was \$420 million in the ERA, \$29.5 constitutionally protected. He lamented that \$420 million would not meet the state's current obligations. He noted that under POMV, in 2003 the entire ERA would have to be used to pay dividends. He stressed that the dividend calculation needed to be modified to coincide with the POMV structure. He noted the targeted numbers for 2019 and warned that the legislature needed to deal with the massive growth in the ERA. He warned that the ERA should not be relied on for both dividends to residents and any operational assistance to the state. He said that even if there was no operation

assistance to the state the dividend was in peril by being focused in the ERA.

[10:27:23 AM](#)

Co-Chair Stedman discussed Slide 4, "SB 103 Protects the Permanent Fund." The slide offered the basic layout of the draw and the split. He hoped that the final bill would be transparent and understandable by the citizens of the state; the people of Alaska are the collective owners of the entire portfolio. The slide reflected a 50/50 split, which Co-Chair Stedman said was a proposal for the purpose of discussion only.

[10:30:19 AM](#)

Co-Chair Stedman discussed Slide 6, "SB 103 Doesn't Alter the Fund's Principles; Save and Grow":

SB 103 limits any draw from the Fund to a maximum 5 percent of its 5-year average value.

This draw limit is conservative and sustainable.

5 percent is comfortably under the Fund's growth performance.

Co-Chair Stedman shared that the 5 percent long-term was a reasonable target and was set in statute. This percentage could be higher or lower and would be under discussion. He said that when the distribution rate was set at 5 percent it was driven by the asset allocation and performance of the PFD and a deliberate effort had been made not to distort and push the PFD asset allocation; the draw rate should not be so high that APFC had to chase risky assets to produce the return, or so low that the sharing of the wealth was inequitable for future generations. He said that SB 26 recognized APFC was a separate entity that knew the cashflow that needed to be produced to the treasury in advance and prepare their portfolio prepared accordingly.

[10:32:45 AM](#)

Co-Chair von Imhof noted that the bill did not address the draw rate in SB 26 but reiterated the draw rate as 5 percent starting in 2021 and addressed the split of that 5 percent.

[10:33:12 AM](#)

Co-Chair Stedman agreed.

[10:33:31 AM](#)

Co-Chair Stedman looked at Slide 7, "SB 103 Protects the Permanent Fund; Let's Talk Dividends":

**The dividend (est. 1982) has disbursed \$22b to Alaskans.**

It is an equitable distribution of resource wealth to those who own the resources.

SB 103 provides a predictable and transparent dividend via a 50/50 formula.

Dividends will once again be reliable and linked to the value of the fund.

[10:34:12 AM](#)

Co-Chair Stedman addressed Slide 8, "Comparison of 1982 Formula and SB 103."

Co-Chair Stedman noted that the chart offered a linear interpretation and reminded committee members that the market was anything but linear. He said that the draw rate on the first row and relayed that the long-term objective was to get to 5 percent. He spoke to the second row, which showed the total POMV draw and was the total amount of money that could be drawn from the PFD in any given year. He moved to the 1982 formula, which was the current dividend calculation, \$3332 per resident in FY 2020. He stated that in SB 103, the transfer dropped from \$1.9 billion to \$1.5, the split would be 50/50 and the PFD would be \$2285. He related that the numbers depended on the strength of the ERA and the financial markets; a ten-year bull market was hard to beat. He pointed to FY 2028 and noted that the dividend would be reduced to \$2600, but there would be more stability. He hoped for input from committee members to craft the legislation to ensure the long-term survival of the PFD and to restrict the ability of the governor and the legislature to overdraw the PFD and reduce purchasing power; net real losses in market value would destabilize the PDF for future generations.

[10:38:56 AM](#)

Senator Micciche requested a graph like the one on Slide 8 beginning in 2000. He wondered whether income was currently calculated excluding unrealized gains and losses.

Co-Chair Stedman replied in the negative. He said that current income used realized gains and losses in income for the dividend formula. He deferred to Angela Rodell, Executive Director, Alaska Permanent Fund Corporation for more information.

[10:40:56 AM](#)

Senator Olson asked whether the APFC Director and Board of Trustees had weighed in on the legislation.

[10:41:06 AM](#)

Co-Chair Stedman deferred to Ms. Rodell.

[10:41:31 AM](#)

Co-Chair von Imhof said that how the money was spent was the per view of the legislature. She asked why the presenter had landed on the 50/50 split.

[10:42:12 AM](#)

Co-Chair Stedman stated that he had tried to gauge where there would be public support. He thought that the 50/50 split was a good starting point for discussions. He added that a 50/50 split would take time to implement and that the state may need financial assistance from the APFC to meet its obligations without massive budget cuts.

[10:44:32 AM](#)

Senator Bishop spoke to Slide 3. He stressed that small dividend payments had gone out in the past, without public outcry, and felt that the 50/50 split was a good idea. He believed that the effective rate could be lowered to 4.5 percent.

[10:46:35 AM](#)

Co-Chair von Imhof agreed that the 50/50 split was a good place to start. She pointed out to the committee that it would require, based on the current budget, over \$800 million in cuts. She argued that a 50/50 split may seem fair, but that there were many factors that needed to be discussed.

[10:48:30 AM](#)

Senator Wilson said that people had been happy with lower dividends in the past because they knew what was happening. He suggested that people did not become outraged until the government began messing with the formula. He said he was in favor of a 50/50 plan. He thought the constitution should be changed with a vote of the people. He worried about tinkering with the formula to "feed the appetite of government".

[10:50:59 AM](#)

Co-Chair Stedman thought that the predictability of the PFD payout and the cashflow to the treasury would be best for the state. He believed that the decision was a multi-decade one. He added that LFD would be working to provide the historical data requested by Senator Micciche.

[10:51:55 AM](#)

Senator Shower noted that the original language in SB 26 had a 70/30 split. He said that the narrative had been driven that the money belonged to the government, and the public as being allowed a portion. He thought the 50/50 seemed like an equitable split. He lamented that the public did not trust the legislature to follow statute. He offered an analogy about a fish countered by one involving Caesar.

[10:54:40 AM](#)

Senator Wielechowski stressed that the maximum benefit of the resource should be provided to the people. He felt that government had received its fair share; the people's share was a tiny fraction of the total value of the oil produced in the state. He expressed concern with changing the language from "shall transfer" to "may appropriate" because it could lead an even smaller share going to Alaskans.

[10:57:07 AM](#)

Co-Chair von Imhof discussed housekeeping.

SB 103 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

10:57:50 AM

The meeting was adjourned at 10:57 a.m.