

**ALASKA STATE LEGISLATURE  
SENATE RULES STANDING COMMITTEE**

June 3, 2019

12:00 p.m.

**MEMBERS PRESENT**

Senator John Coghill, Chair  
Senator Cathy Giessel, Vice Chair  
Senator Mia Costello  
Senator Natasha von Imhof  
Senator Tom Begich (via teleconference)

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Senator Gary Stevens  
Senator Chris Birch  
Senator Elvi Gray-Jackson  
Senator Bill Wielechowski  
Senator Donald Olson  
Senator Lora Reinbold  
Senator Click Bishop  
Senator Scott Kawasaki

Representative Bryce Edgmon  
Representative Neal Foster  
Representative Andy Josephson  
Representative Gary Knopp

**COMMITTEE CALENDAR**

SENATE BILL NO. 1002

"An Act making special appropriations for the payment of permanent fund dividends; and providing for an effective date."

- MOVED SB 1002 OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: SB 1002

SHORT TITLE: APPROP: PFD FROM GF, HIGHER ED. & RESERVE

SPONSOR(s) : FINANCE

06/03/19 (S) READ THE FIRST TIME - REFERRALS  
06/03/19 (S) MOTION TO WAIVE UR 24(D) AND REFER TO  
RLS UC  
06/03/19 (S) RLS

**WITNESS REGISTER**

Senator Bert Stedman  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Introduced SB 1002 on behalf of the Senate Finance Standing Committee.

**ACTION NARRATIVE**

[12:00:18 PM](#)

**CHAIR JOHN COGHILL** called the Senate Rules Standing Committee meeting to order at 12:00 p.m. Present at the call to order were Senators Giessel, Costello, von Imhof, and Chair Coghill. Senator Begich attended via teleconference and Senator Kawasaki joined the committee at the table.

**SB 1002-APPROP: PFD FROM GF, HIGHER ED. & RESERVE**

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**CHAIR COGHILL** announced the consideration of SENATE BILL NO. 1002, "An Act making special appropriations for the payment of permanent fund dividends; and providing for an effective date."

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**SENATOR BERT STEDMAN**, Alaska State Legislature, Juneau, stated that SB 1002, which is an appropriation bill sponsored by the finance committee, will pay a \$1,600 dividend to qualified Alaskans this coming fall. The total cost is estimated to be \$1,070,500,000. Noting the considerable discussion about the size of the dividend this year, he said it's not the dividend itself that causes concern. Rather, it is the financial impact of trying to cash flow an amount that is almost as much as the cost of K-12 education for a year.

**SENATOR STEDMAN** identified the three funding sources for SB 1002 that would equate to a \$1,600 dividend: 1) \$770,000,000 from the general fund; 2) \$172,400,000 from the budget reserve fund,

which requires a simple majority from both bodies; and 3) an estimated \$128,100,000 from the Alaska higher education investment fund. He noted that the latter amount will vary depending on the number of qualified applicants.

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SENATOR STEDMAN explained that the \$770 million in general funds comes predominantly from taxes from oil revenue, but it's comingled with the 5.25 percent statutory draw on the earnings reserve account (ERA) that is deposited into the general fund. He said it's difficult to bifurcate and track where each individual dollar is spent in the budget and whether it comes from taxes or the 5.25 percent from the permanent fund because the monies are comingled and expensed. He highlighted that the statutory 5.25 percent draw will be reduced to 5 percent in a year or two. Any draw above this amount violates the statute and is referred to as an unstructured or ad hoc draw.

SENATOR STEDMAN related that while the \$172.4 million from the statutory budget reserve fund would very nearly liquidate that account, the SBR would stay on the books and could be funded in the future when there are excess revenues. He clarified that the statutory budget reserve is the state's smaller primary savings account that is not to be confused with the constitutional budget reserve (CBR). The CBR has a balance of approximately a \$2.3 billion and a three-fourths vote of the legislature is required to draw from it.

SENATOR STEDMAN said the third funding source takes \$128.1 million from the Alaska higher education investment trust. That leaves a balance of about \$200 million, which is a sufficient amount to avoid a large structural change in that program in the next year or two.

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SENATOR STEDMAN said the bill does not propose to draw from just the earnings reserve because the annual draw from that account is statutorily capped at 5.25 percent. That statute is just as valid as the dividend statute, which requires a \$3,000 dividend. Both statutes are on the books and both should be recognized. When the finance committee looked at the funding sources, the decision was to tap the sources that yield less and would thus have a smaller impact on returns going forward. He said that is why the committee chose the general fund, the statutory budget reserve, and the higher education fund versus the ERA.

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SENATOR STEDMAN explained that if the entire \$1,071,000,000 was drawn from the earnings reserve, everything in excess of the statutory 5.25 percent would be an unstructured or ad hoc draw. He said he believes the 5.25 percent cap is a little high, but not so much as to require the permanent fund to structurally change its asset allocation or management policies. He noted that the cap will drop to 5 percent in a few years, which will make it a little easier. However, if the legislature starts drawing more than 5.25 percent virtually right away, that would send a cautionary message to the permanent fund corporation that it can't rely on how much the legislature will demand in any given year. They will be forced to review its asset allocation modeling, change some of their investment targets, and otherwise be a little more conservative to potentially respond to a cash call on that \$65 billion portfolio. He said we need to respect that.

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SENATOR STEDMAN talked about the tight times during Territorial Days, advancing into Statehood, and walking into a huge oil boom. He said Alaskans have been living in a very fruitful time since the oil boom and there have been a lot of improvements in the quality and standard of living. This has taken a lot of money and it came from the oil industry and the development of Alaska's assets. He said collectively we set aside some of that money and that portfolio now has a \$60 billion to \$65 billion balance. He said the legislature faces a significant decision about how to finance its current obligations and not devour the seed capital that should be left to future generations of Alaskans. All those nuances have been calibrated into the so-called political decisions associated with selecting the fund sources for the \$1,600 dividend, he said. The bill has an effective date of July 1, 2019.

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SENATOR STEDMAN concluded his opening comments with a summary of the largest expenditures this year. The general fund operating budget is roughly \$4.4 billion, the \$1,600 dividend would be an additional \$1 billion, the capital budget is roughly 200 million and the fiscal note for the crime bill is estimated to be \$40 million.

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CHAIR COGHILL recognized the presence of Senators Stevens, Birch, Gray-Jackson, Wielechowski, Olson, Reinbold, and Bishop; and Representatives Edgmon, Foster, and Josephson.

He described SB 1002 as a reasonable proposal to create a sustainable dividend that considers future generations. He advised the listening public that consideration of a different dividend formula is not possible during this special session.

CHAIR COGHILL recognized that Senator Begich was online.

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SENATOR KAWASAKI asked how the committee arrived at a \$1,600 dividend.

SENATOR STEDMAN said the finance committee struggled with this issue throughout the regular session. They spent about a month looking at the recurring cash flow which would yield a dividend of about \$1,100. He said there was also a lot of discussion among the committee and other colleagues about matching last year's \$1,600 dividend. That amount doesn't overstrain the permanent fund or the ability to help areas throughout the state respond to unexpected budgetary impacts. It's within fiscal reach of the appropriations.

CHAIR COGHILL added that some legislators believe that "within fiscal reach" includes the requirement for continued downward pressure on the operation of government.

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SENATOR KAWASAKI asked how the needs-based grants and the legislature's performance scholarships will be impacted by removing \$140 million from the \$340 million higher education trust fund.

SENATOR STEDMAN said he believes those programs could be sustained with the \$200 million balance after the draw. He added that it's clear that the savings sources are diminishing. This is evidenced by the more than \$10 billion that has been liquidated from the constitutional budget reserve (CBR) in the last few years. If SB 1002 passes as drafted, the statutory budget reserve (SBR) would be liquidated. There would still be some money in the higher education trust and the power cost equalization endowment is a little under \$1 billion. "We have been living off of our excess liquidity or savings accounts for six years now and we're now to the point where the hard decisions have to be made," he said. He noted the concern about depleting the education fund and advised that money could be appropriated to that fund in the next year or so if there is a shortage.

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SENATOR COSTELLO expressed appreciation that the full Senate would be able to debate the bill this week. She highlighted that Governor Jay Hammond described the dividend as the check on government growth and that it's the people's investment in government. She questioned how the dividend can serve its purpose if it comes from any funding source other than the permanent fund.

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SENATOR STEDMAN restated that the draws out of the permanent fund are comingled with other monies so it's impossible to track individual dollars. He said the concern about the permanent fund draw is that not only does it have to pay the dividend but also follow the statutory 5.25 percent [POMV] structure. He also pointed out that when the current dividend formula was put in place the permanent fund portfolio was about \$1 billion, whereas it's now about \$65 billion. Part of the discussion today is what happens when the portfolio is \$120 billion. He said there is no easy answer; we just have to do the best we can for the benefit of all Alaskans now and in the future.

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SENATOR GIESSEL offered her understanding that in about 2008, qualified Alaskans received a \$2,600 dividend and a \$1,200 energy rebate, all of which came out of the ERA. This was followed by a sharp market correction and the permanent fund corporation was forced to sell assets to pay a dividend in 2009. She asked Senator Stedman his recollection of those events and the risks the permanent fund faces today in a similar scenario.

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SENATOR STEDMAN said he was co-chair of the Senate Finance Committee at that time and he distinctly recalls having a little bit of indigestion because the permanent fund trustees for the first time let politics influence their investment decisions just to pay a dividend. "That is my opinion of what happened," he said.

He explained that at the time there was a very aggressive oil tax structure, prices were high, and there was a lot of oil. The combination of those factors caused [Governor Palin] to decide to help Alaskans pay for their winter energy costs by issuing an energy rebate in addition to the sizeable dividend. When the great recession hit the following year, the finance committee tried to keep the state out of a recession by passing large capital budgets. A recession was avoided but the losses within

the permanent fund were so significant that there was concern that there would not be any money to pay a dividend to the people of Alaska.

SENATOR STEDMAN said politics did creep into the permanent fund then and that's why he talked about the message it sends to the permanent fund trustees if the legislature makes ad hoc draws in excess of the 5.25 percent cap. If the board can't rely on that cap, the only thing they can rely on is that the legislature will target the large pool of money in the permanent fund after it has spent all its other monies. That leads to investment behavior that is detrimental to long-term rates of return and hurts generations of future Alaskans.

SENATOR GIESSEL asked how a significant market contraction would jeopardize the approximately \$19 billion ERA and thus the dividend.

SENATOR STEDMAN said the ERA would decline if there was a significant contraction and it would decline further as money is drawn out. Similarly, it would increase in a bull or expanding market. Under a percent of market value calculation, the dividend flow would be smoother. He said it's not part of the discussion here, but there is talk in the building about putting \$12 billion of the \$19 billion that's in the ERA into the permanently protected constitutional portion of the permanent fund. It would be unavailable for spending if the markets decline. It's for future generations.

CHAIR COGHILL remarked that it would still be valued under the 5.25 percent cap.

SENATOR STEDMAN answered yes.

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SENATOR VON IMHOF disagreed with the earlier comment that the dividend was intended to connect citizens to government. She said the original intent of the fund can be discerned from the original trustee papers that said the permanent fund was to act as a countercyclical to the boom and bust cycle of a commodities market. When the Trans Alaska Pipeline System (TAPS) was under constructed, groups of Alaskans visited Saudi Arabia, Norway, Iran, and Venezuela to see the mechanisms by which those countries set aside part of their sovereign wealth funds. Those Alaskans collectively decided to set aside 25 percent of annual oil revenues into a fund that would grow in perpetuity and ensure there was something to show for that oil wealth even

after the commodity ran out. Forty years later there is \$64 billion to show for it. This year there is a \$6 million surplus after the nearly \$3 billion POMV draw, but without the POMV there would be a \$2.5 billion deficit. I don't know how we'd feel in that scenario, she said.

SENATOR VON IMHOF said the trustee papers reflect that creating the permanent fund in the late 70s and then the dividend in 1980 was just as contentious then as it is today. There are probably 15 years of trustee papers with perspectives that are all over the map. Governor Hammond's is one perspective, but it's not the only perspective. She said the \$1,600 dividend we're contemplating today is a negotiated amount that the state can't afford. She said a \$1,000 dividend is affordable with a very skinny capital budget. Savings are being depleted. There isn't \$18 billion in the ERA anymore and a lot of the unrealized earnings are gone. She said each time the legislature takes more than 5.25 percent it comes closer to the 6.5 percent that Callen & Associates, Inc. said the permanent fund can make over time. But as the fund erodes, the POMV draw will get lower every year and get the state closer and closer to an income tax. She emphasized that to impose an income tax on hard-working Alaskans and then turn around and deposit into their neighbor's checking account is not a fiscally conservative Republican value. "At least not in my book," she said.

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CHAIR COGHILL added that Governor Hammond's idea was to have a dividend and an income tax, which was just one of many opinions. He opined that SB 1002 is one way of maintaining downward pressure on government and it ought to be done with an eye on formulating a dividend that is appropriate and sustainable.

SENATOR GIESSEL pointed out that the permanent fund trustees are required to follow a prudent investor rule to invest for the greatest return for the fund. At the same time, the legislature is the board of directors for the State of Alaska and they must look at the most prudent steps for the longevity and best interest of the state. She agreed with the chair's comments and summarized the points made by Senator von Imhof about the current surplus, what is affordable, and the effect of excess draws. These are all things that a board of directors held to their fiduciary responsibilities would take into account as they decide on the size of the dividend. She said Senator Stedman did an excellent job of explaining that all these funds are comingled. The percent of market value money goes into the general fund just as the constitution says it does.

She said SB 1002 identifies fund sources to pay a \$1,600 dividend and some people have said that unless it comes from the ERA, it's a government check. But the fact is the dividend is a government check issued by the State of Alaska. The \$1,600 dividend is what the state can afford and it reflects the legislature's fiduciary obligation to act in the best interest of the state.

CHAIR COGHILL said the legislature is trying to find a reasonable balance of sharing the wealth of the state as broadly as possible while also budgeting for essential services. It is a deliberative process.

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SENATOR STEDMAN recognized Pete Ecklund as the primary lead on the operating budget. In closing he related that the last time he was before the Rules Committee was in pursuit of a 50/50 match program for libraries. He said he hopes that has encouraged a literate populace who can read historic documents, be informed by hearings such as this, and draw conclusions. He thanked the committee for hearing the bill.

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SENATOR GIESSEL moved to report SB 1002, work order 31-LS1029\U, from committee with individual recommendations.

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CHAIR COGHILL found no objection and SB 1002 moved from the Senate Rules Standing Committee.

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There being no further business to come before the committee, Chair Coghill adjourned the Senate Rules Standing Committee meeting at 12:46 p.m.