

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

February 5, 2019

3:32 p.m.

MEMBERS PRESENT

Senator Mike Shower, Chair
Senator John Coghill, Vice Chair
Senator Lora Reinbold
Senator Peter Micciche
Senator Scott Kawasaki

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 23

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

- HEARD & HELD

SENATE BILL NO. 24

"An Act directing the Department of Revenue to pay dividends to certain eligible individuals; and providing for an effective date."

- HEARD & HELD

SENATE CONCURRENT RESOLUTION NO. 1

Proposing an amendment to the Uniform Rules of the Alaska State Legislature relating to the appearance of measures on the daily calendar after the ninetieth day of the regular session.

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: SB 23

SHORT TITLE: APPROP:SUPP. PAYMENTS OF PRIOR YEARS' PFD

SPONSOR(s) : RULES BY REQUEST OF THE GOVERNOR

01/16/19 (S) READ THE FIRST TIME - REFERRALS
01/16/19 (S) STA, FIN
02/05/19 (S) STA AT 3:30 PM BUTROVICH 205

BILL: SB 24

SHORT TITLE: PFD SUPPLEMENTAL PAYMENTS

SPONSOR(s) : RULES BY REQUEST OF THE GOVERNOR

01/16/19 (S) READ THE FIRST TIME - REFERRALS
01/16/19 (S) STA, FIN
02/05/19 (S) STA AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

BRUCE TANGEMAN, Commissioner Designee
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Presented SB 23 and SB 24 on behalf of the administration.

ED KING, Chief Economist
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Delivered the sectional analyses for SB 23 and SB 24.

ACTION NARRATIVE

3:32:34 PM

CHAIR MIKE SHOWER called the Senate State Affairs Standing Committee meeting to order at 3:32 p.m. Present at the call to order were Senators Coghill, Reinbold, Micciche, Kawasaki, and Chair Shower.

SB 23-APPROP:SUPP. PAYMENTS OF PRIOR YEARS' PFD

3:33:46 PM

CHAIR SHOWER announced the consideration of SENATE BILL NO. 23 "An Act making special appropriations from the earnings reserve account for the payment of permanent fund dividends; and providing for an effective date."

He asked the presenters to introduce themselves and noted that Commissioner Designee Tangeman would provide opening comments.

He advised that public testimony would be taken at a future hearing.

3:35:18 PM

BRUCE TANGEMAN, Commissioner Designee, Department of Revenue, stated that SB 23 and the next bill on the agenda, SB 24, are critical in the cornerstone of what Governor Dunleavy campaigned on and is dear to his heart. They are more about restoring trust in government than paying back the permanent fund dividends (PFD). The governor wanted to correct the previous administration's decision to take a different route than the long-standing statutory calculation for the PFD. He highlighted that the size of government was not significantly reduced over the last three years while the dividend was reduced, and Governor Dunleavy believes these go hand in hand. The dividend can be restored but the size of government in Alaska must be brought into check. He advised that considering the dividend issue is just one part of the larger discussion that will begin on February 13 when the budget is released.

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ED KING, Chief Economist, Department of Revenue, explained that SB 23 is an appropriation bill that transfers money from the earnings reserve account into the dividend fund. He delivered a sectional analysis speaking to the following prepared document:

Section 1(a). This section makes an appropriation from the permanent fund earnings reserve account (AS 37.13.145) to the dividend fund (AS 43.23.045(a)) of the amount of money necessary for a payment of \$1061 to eligible individuals who received a 2016 dividend and who are eligible to receive a 2019 dividend for fiscal year 2020.

Section 1(b). This section makes an appropriation from the permanent fund earnings reserve account to the dividend fund of the amount of money necessary for a payment of \$1289 to eligible individuals who received a 2017 dividend and who are eligible to receive a 2020 dividend for fiscal year 2021.

Section 1(c). This section makes an appropriation from the permanent fund earnings reserve account to the dividend fund of the amount of money necessary for a payment of \$1328 to eligible individuals who received a 2018 dividend and who are eligible to receive a 2021 dividend for fiscal year 2022. [He noted that there

may have been an error in this calculation, and it is under review.]

Section 1(d). This section makes an appropriation from the permanent fund earnings reserve account to the dividend fund of the amount authorized for transfer by the Alaska Permanent Fund Corporation pursuant to AS 37.13.145(b) for the payment of permanent fund dividends for fiscal year 2020.

Section 1(e). This section makes an appropriation from the permanent fund earnings reserve account to the dividend fund of the amount authorized for transfer by the Alaska Permanent Fund Corporation pursuant to AS 37.13.145(b) for the payment of permanent fund dividends for fiscal year 2021.

Section 1(f). This section makes an appropriation from the permanent fund earnings reserve account to the dividend fund of the amount authorized for transfer by the Alaska Permanent Fund Corporation pursuant to AS 37.13.145(b) for the payment of permanent fund dividends for fiscal year 2022.

Section 1(g). This section makes an appropriation from the permanent fund earnings reserve account to the dividend fund of the amount authorized for transfer by the Alaska Permanent Fund Corporation pursuant to AS 37.13.145(b) for the payment of permanent fund dividends for fiscal year 2023.

Section 2. This section is a contingency provision that makes the appropriations in section 1(a)-(c) contingent on the legislature's passage and enactment into law of a bill directing the commissioner of revenue to include certain payments for the 2016, 2017, and 2018 dividends to eligible individuals with the dividend payments for 2019, 2020, and 2021.

Section 3. This section makes the appropriations in section 1(b) and (e) which relate to dividend payments in 2020 effective July 1, 2020.

Section 4. This section makes the appropriations in section 1(c) and (f) which relate to dividend payments in 2021 effective July 1, 2021.

Section 5. This section makes the appropriation in section 1(g) which relates to dividend payments in 2022 effective July 1, 2022.

Section 6. This section provides that except for sections 3-5, the Act takes effect immediately under AS 01.10.070(c).

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ED KING, Chief Economist, Department of Revenue, characterized SB 23 and SB 24 as "basically married" and said he would move on to the sectional analysis for SB 24 unless there were questions.

SENATOR MICCICHE asked if the bill received legal vetting to look at constitutionality and the potential for challenges by those who received a dividend during the three previous years but are no longer a resident and thus ineligible.

MR. KING deferred to the commissioner to speak to policy and advised that a legal team would be available to answer questions at a subsequent hearing.

[3:43:07 PM](#)

COMMISSIONER DESIGNEE TANGEMAN related that the Department of Law (DOL) vetted the bill thoroughly and the administration believes it will stand up in a court.

[SB 23 was held in committee.]

SB 24-PFD SUPPLEMENTAL PAYMENTS

[3:43:35 PM](#)

CHAIR SHOWER announced the consideration of SENATE BILL NO. 24 "An Act directing the Department of Revenue to pay dividends to certain eligible individuals; and providing for an effective date."

MR. KING explained that SB 24 directs the commissioner of the Department of Revenue (DOR) to disburse the funds that are appropriated from the earnings reserve to the dividend fund. The entire bill amends uncodified law directing the commissioner to disburse the funds that are transferred into the dividend fund in addition to the calculated dividend for the year.

MR. KING delivered a sectional analysis for SB 24 speaking to the following prepared document:

Section 1(a). This section would amend the uncodified law to provide that notwithstanding AS 43.23.005, the commissioner of revenue shall include with permanent fund dividends in 2019, 2020, and 2021 payments to eligible individuals of \$1,061 in 2019, \$1,289 in 2020, and \$1,328 in 2021.

Section 1(b). This section would provide that an individual eligible in 2019 for a payment of \$1,061 in addition to the permanent fund dividend is an individual who received a 2016 permanent fund dividend and is eligible to receive a 2019 permanent fund dividend.

Section 1(c). This section would provide that an individual eligible in 2020 for a payment of \$1,289 in addition to the permanent fund dividend is an individual who received a 2017 permanent fund dividend and is eligible to receive a 2020 permanent fund dividend.

Section 1(d). This section would provide that an individual eligible in 2021 for a payment of \$1,328 in addition to the permanent fund dividend is an individual who received a 2018 permanent fund dividend and is eligible to receive a 2021 permanent fund dividend.

Section 1(e). This section would provide that the amount appropriated from the permanent fund earnings reserve account (AS 37.13.145) to the dividend fund (AS 43.23.045(a)) for the payments in section 1(a) to eligible individuals during 2019-2021 may not contribute to the calculation for the 2019- 2021 dividends under AS 43.23.025.

Section 2. This provides for an immediate effective date.

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SENATOR COGHILL asked if the Permanent Fund Corporation has talked about how the disbursements would be managed.

MR. KING clarified the question and explained that should SB 24 pass, the appropriation would be booked as a liability and the corporation would manage those assets to ensure adequate liquidity to make the transfer to the Permanent Fund Division.

The division would manage the transfer to the dividend fund and the disbursements. That date would align with the date the disbursements generally are made, usually in September.

SENATOR COGHILL suggested the committee ask the corporation how this would affect liquidity. He also asked for confirmation that this would not impose any lingering tax liability on recipients.

MR. KING confirmed that the payments would be booked as income for federal tax purposes in the year in which the payment is received.

SENATOR COGHILL summarized his understanding of the answer and Mr. King agreed.

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SENATOR MICCICHE countered that the payment may push some individuals into the next tax bracket.

MR. KING agreed an individual in that circumstance would have a higher tax liability, but it would not be an amendment to a previous year's tax return.

SENATOR REINBOLD asked how the repayments will impact the dividend over the long term.

MR. KING replied that removing money from the earnings reserve leaves a smaller balance in the fund to spin off returns. He directed attention to the bar graphs on slide 4 that show the expected impact on the earning reserve account (ERA) with and without the backpay and the size of the dividend with and without the backpay. The projected dividend payments in FY20, FY21, and FY22 reflect larger payments with the backpay. That changes in subsequent years showing that the status quo payments would be slightly smaller. The reason for that is that a smaller fund balance results in smaller returns, and the PFD is calculated on those returns. "There is no denying it, that impact does exist," he said.

CHAIR SHOWER asked for the source of the data and how the numbers were validated.

MR. KING replied he personally produced the graphics on the slide as the chief economist and head of the Economic Research Group at the Department of Revenue.

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SENATOR REINBOLD asked for an explanation of the fiscal notes.

MR. KING replied the fiscal note for SB 24 is \$24,000 and is intended to pay for programing costs so the Permanent Fund Division can determine who is eligible and disburse the funds.

SENATOR REINBOLD clarified that she was asking about the draw on the earnings reserve account.

MR. KING said as currently structured, the draw on the earnings reserve would be just less than \$2 billion.

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SENATOR REINBOLD clarified for the public that the proposed \$2 billion draw is in addition to the approximately 2.9 billion POMV [percent of market value] draw. She asked if he agreed.

MR. KING replied that was his understanding.

SENATOR REINBOLD calculated that the total draw would be about \$5 billion, should the bill pass.

MR. KING pointed out that the bill appropriates the money over three years, not all at once. The impact for FY20 would be \$2.9 billion plus the estimated \$565 million dividend payment [described in slide 2 of the presentation] for a total of about \$3.5 billion. The estimated dividend payment in FY21 of \$683 million would be in addition to the POMV, which would be about \$3 billion. He noted that making the payments over three years allows time for the fund to make money so the fund balance is not injured as much as it would be with lump sum payments.

SENATOR COGHILL suggested it would be helpful for the committee to know the potential payout for those in Alaska.

MR. KING said he could read the number into the record.

CHAIR SHOWER asked that he also update the slide for the committee.

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MR. KING agreed and stated the following:

The number that is estimated for the FY20 is \$566,756,995. With a maximum appropriation (that is if every eligible person in 2016 remained eligible in 2019) the maximum appropriation would be \$682,839,753.

Responding to a question from Senator Coghill, he clarified that would be the back payment. He further clarified that the anticipated payment for the FY20 dividend is \$1.9 billion. If SB 24 were to pass, it would add another \$565 million for a total of \$2.5 billion.

SENATOR COGHILL said his point was to highlight the total because, "when we get the budget, we're going to have to think of it in that term."

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CHAIR SHOWER clarified that the discussion is about what the total bill would be each year if SB 24 were to pass.

SENATOR COGHILL said it looks like the draw would be about \$0.5 billion plus the usual payment of about \$1 billion. He calculated that it would be \$1.5 billion plus per year going forward.

MR. KING provided the following clarification:

For FY20, we're expecting there to be a draw on the fund of \$2.9 billion from the earnings reserve to the general fund for the purposes of percent of market value. In addition to that, this bill would appropriate an additional \$565 million. We're expecting that that fund will earn about \$4.1 billion that year so the total fund balance won't decrease. It will actually increase slightly. There will be a transfer to the principal if you do inflation-proofing but the fund itself won't decrease. That's \$3.5 billion of total draws from the ERA to the general fund and the dividend fund.

In FY21, the POMV will be about \$3 billion plus the [\$683] so \$3.7 billion total moving. In FY 22, it would be a little bit more, about \$3.8 billion in total.

Once you get past that, [in FY23] the additional appropriations go away. We've paid those off, so the total draw goes down to close to that \$3 billion draw. Of that, ...the permanent fund dividend also begins to shrink and that's just a product of the really good year that we had last year in FY18. That number will drop off of the five-year rolling average in 2024 so

the permanent fund dividend will be smaller just as a natural consequence. That has nothing to do with the bill.

MR. KING summarized that the money coming out of the fund isn't any more than about \$3.5 billion in the next three years and about \$3 billion every year thereafter.

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SENATOR COGHILL said it's still a cash draw on the state and he wanted to know what that gross draw would be.

MR. KING said he would follow up with the numbers in a table.

[4:00:28 PM](#)

CHAIR SHOWER asked him to explain where the money that should have been allocated the first two years is sitting. His understanding is that the money was allocated the third year.

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MR. KING explained that for all intents and purposes, the money that was not distributed in each of the three years is still in the earnings reserve.

CHAIR SHOWER asked for clarification about what happened to the money that was not distributed last year.

MR. KING explained that last year the returns were far greater than the distributions from the fund, so the effect is that the money is sitting in the earnings reserve.

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SENATOR MICCICHE pointed out that money was allocated out of the earnings reserve last year to the POMV and it went to the general fund.

CHAIR SHOWER said that was his question.

SENATOR MICCICHE responded that, "Whether it's those exact dollars that were transferred out or not is one's individual judgment. But last year the monies were actually used to pay a proportion of the bills for the state."

CHAIR SHOWER said that is the point. "Was the money allocated used or was it essentially left sitting in the fund?"

MR. KING responded that there was enough money appropriated from the earnings reserve to the general fund to pay a full dividend, although it was not transferred for that purpose. He agreed that it's a matter of perspective and either description is accurate.

CHAIR SHOWER said this is the opportunity to put it on the public record and into the light. We want to make sure that we're arguing with good facts, he said.

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SENATOR MICCICHE said it's important for the public to understand that the money that was withheld from dividends the first two years was not used to pay any state operating costs, but a proportion was used the third year. He said that's important because for the first time in state history, money from the earnings reserve was used to supplement state services.

He referred to slide 2 and asked for an explanation of the assumptions that were used for outmigration to determine the numbers of people who would be eligible for a backpay dividend.

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MR. KING explained that DOR's historical analysis found that about 17 percent of people who received a dividend in one year do not receive a dividend three years later. In 2016, 643,581 people received the dividend and DOR anticipates that 534,172 of those will receive the additional payment. For 2017, 640,248 people received a dividend and 83 percent of that number is 531,406 people. In FY18, 639,247 people received a dividend and the expectation is that 530,575 people will receive the additional payment.

SENATOR REINBOLD calculated that a \$3 billion POMV draw plus about \$1 billion per year for dividends plus the back payments proposed in SB 24 roughly totals \$14 billion. She said she struggles with that number if one wants to save the permanent fund. She asked if her public math was close to accurate.

MR. KING pointed out the PFD payment comes out of the POMV, not in addition to it so the total would be \$11 billion. However, the fund is anticipated to earn over \$12 billion so the fund should not be injured.

CHAIR SHOWER asked him to break the dividend out of the POMV draw.

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MR. KING explained that for FY20 the POMV is \$2.9 billion and the dividend payment is estimated to be about \$1.9 billion, leaving \$1 billion for the general fund. The situation is similar in FY21; about \$3 billion is transferred and about \$2 billion goes to the dividend, leaving about \$1 billion for the general fund.

CHAIR SHOWER summarized that the statutory calculation for the permanent fund over three years is roughly \$6 billion. Adding \$2 billion for the payback brings the rough total over three years to \$8 billion.

MR. KING clarified that the transfer over three years would be \$9 billion plus the \$2 billion dividend payback for a total of \$11 billion.

SENATOR REINBOLD commented that it's important to understand that the POMV draw includes the PFD.

CHAIR SHOWER pointed out that the money is not transferred from the earnings reserve in one lump sum, which leaves a larger balance in the earnings reserve that continues to generate returns.

He said it's also important to note the impact on the budget this year. The \$2.9 billion draw under the POMV model less \$1.9 billion for the dividend leaves about \$1 billion for the general fund. Add that to the \$2.2 billion from oil and gas this year yields a revenue model of about \$3.2 billion. If things don't change, it should be similar over the next few years.

SENATOR MICCICHE commented that he keeps hearing a little lawyer voice warning that past returns are not an indicator of future performance.

He asked if DOR stress tested the assumptions to account for the potential to deliver a three-fourths vote on the CBR and the potential for other legislators to support an unstructured draw from the ERA. These factors could lead to a significantly lower earnings reserve balance which could stress the ability for future dividend payments as well.

MR. KING directed attention to the graph on slide 5 that represents the Callan estimates of the risk of depleting the ERA, given the assumption that draws from the ERA are limited to the proposed appropriations in addition to the POMV and inflation proofing calculations. He said the likelihood of the

ERA being depleted due to random fluctuations in the marketplace is about 1 percent. The risk increases to about 3 percent with the \$2 billion transfer over the next three years, because the balance on which to base earnings is smaller. He said he agrees with Senator Micciche about past performance and future returns, but the past performance has been phenomenal, averaging over 9.5 percent per year for the last 40 years. In the last 9 years the average has been 9.64 percent.

For planning purposes the corporation projects an historically low 6.55 percent return on the fund. When DOR ran the analysis reflected on slide 5, the Callan estimate of 6.55 percent was used. He noted that applying a distribution of past performance and select randomly from the previous 40 years brings the risk of the draw depleting the fund to virtually zero.

CHAIR SHOWER asked for an explanation of the Callan and Monte Carlo models.

MR. KING explained that a Monte Carlo simulation is a risk analysis technique that uses a distribution of probable numbers from which a computer randomly selects. DOR ran 100,000 simulations and there was no problem in 99,000 of the simulations. He advised that Callan Associates Inc, is the consultant for the Permanent Fund Corporation that provides risk analyses and advice on expected returns.

SENATOR MICCICHE advised that in the finance committee he would request DOR run a model with some level of unstructured draw so he could understand what that depletion looks like in that circumstance. "I personally find it difficult to believe that we're going to deliver a three-quarter vote with the current makeup of the legislature, particularly observing the issues across the hall," he said.

MR. KING said if the unstructured draw is limited to the request in the bill and the POMV, the risk of depletion is negligible. But increasing the draw by \$0.5 billion to \$1.0 billion into perpetuity is not sustainable.

CHAIR SHOWER asked Mr. Tangeman if he had anything to add.

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COMMISSIONER DESIGNEE TANGEMAN cautioned that this was also contingent on the budget. As far as unstructured draws and testing the model, he said it's clear we are living beyond our means. Continuing draws of \$1 billion or more just to meet the

existing operating budget is a problem. SB 24 is about making whole on the back payments which have been sitting in the fund earning a healthy rate of return. The discussion in the coming days on the budget will be about how to put a stable budget in place for the State of Alaska that does not rely on giant unstructured draws from whatever revenue source it is - UGF, CBR, ERA. He related the Governor's view is that sufficient revenue cannot be extracted from the citizens of Alaska to support the budget.

He suggested that once the Governor's budget is on the table, the entire plan can be stress-tested, including these three years of catchup, what the revenue sources look like, and what a significantly reduced budget looks like in that model. He posited that "reducing the budget to the level that we see as appropriate, you can absorb things like this and allow the earnings reserve and the permanent fund itself to grow into the future."

CHAIR SHOWER asked how much tax revenue it would take to make this achievable over the next 5-6 years.

COMMISSIONER DESIGNEE TANGEMAN advised that the administration is not proposing new revenues initially, because the focus needs to be on the budget. In step one the discussion will be that the available revenue is \$3.2 billion. Step two will be about the level of spending that revenue will support, including what is constitutionally required. The "goal is to focus the discussion on what is sustainable with the current revenue stream we have," he said.

CHAIR SHOWER asked for clarification that the administration believes that this is achievable without starting the discussion of taxes.

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COMMISSIONER DESIGNEE TANGEMAN replied that's correct. He added that it's about \$2 billion over the next three years to correct this issue, but because the ERA will continue to grow over the coming years, DOR believes there will be a net increase to the ERA.

SENATOR REINBOLD said she continues to have concerns about a natural disaster like the earthquake as well as international threats. Thus her belief in the necessity of having reserves.

Turning to policy, she said she hasn't been a big believer in the POMV because it's a \$3 billion draw, less the dividends, for government. She described slide five as unfair because it shows almost no risk of depletion but \$11 billion is removed from the account over three years, which draws it down. She asked if that was a fair statement.

MR. KING referred to the graphics on slide 4 of the fund balance with backpay and the status quo. It shows that the \$17 billion balance in the fund remains flat under the status quo. The blue bar reflects the balance with backpay is basically \$2 billion lower. This reflects the \$2 billion draw which by itself would not deplete the ERA. Additional draws on the fund or earnings that are significantly lower than expected would impact the fund negatively.

SENATOR REINBOLD noted that he was only focusing on the balance in the context of SB 23 and SB 24 and she was also including the impact of Senate Bill 26. She suggested the slide be updated to clarify it was only considering the impact SB 23 and SB 24 would have on the ERA balance.

SENATOR MICCICHE pointed out that the numbers on slide 4 include the POMV, which is the result of Senate Bill 26. He also clarified that SB 23 and SB 24 are about returning the traditional statutory calculation and he would not necessarily call that an unstructured draw. He said he brings it up as a warning to the legislature that any unstructured draws from the ERA will put the Alaska Permanent Fund and the Permanent Fund Dividend at extreme risk. He reiterated the warning that unstructured draws from the earnings reserve cannot become normal practice.

He restated that he would like DOR to run a risk analysis of additional unstructured draws above SB 23, SB 24, and Senate Bill 26 so the legislature more clearly understands the risk this presents to the Alaska Permanent Fund.

4:30:30 PM

MR. KING said the account is stable with the current POMV law and given the assumptions the permanent fund has about its earnings. However, any additional draws put that stability at risk. As long as the structured draw remains in place, the risk highlighted on slide 5 is correct. It demonstrates there is some additional risk by taking \$2 billion out of the account but the Governor believes the risk is appropriate. Removing anything additional presents a severe risk that the account could not

sustain that draw. He offered to run several scenarios at different budget levels to show what that risk does.

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CHAIR SHOWER commented that we need to deal with the model we have, and the general warning is that past performance does not guarantee similar results in the future. Because the past performance of legislators spending money is not too good, he suggested that, "We need to be the ones putting handcuffs on ourselves."

SENATOR COGHILL noted that the POMV is roughly 5 percent of the total valuation of the fund, which now is about \$650 million. He asked Mr. King to discuss what the dividend payout would be and what would be left for government.

MR. KING explained that \$1.9 million is approximately two-thirds of the \$2.9 million that's being transferred from the earnings reserve for the dividend under the statutory formula. He said he'd follow up with the calculation with the additional payment added on.

SENATOR COGHILL said he wanted the general public to know that the percent of market value (POMV) is an endowment that allows 5 percent of the total value of the fund to be withdrawn. At this point, the distribution would be two-thirds to the dividend and one-third to government. He said he appreciates that Governor Dunleavy's priority is to put downward pressure on the government instead of expecting the people to pay more. He said this is a good exercise, but he needs to look at the budget before he can support this approach.

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CHAIR SHOWER read the assumptions on slide 4 which say, "Assumes draws from the ERA are limited to the proposed appropriations in addition to the POMV and inflation proofing calculations." He asked for confirmation that the charts on slide 4 do reflect those assumptions.

MR. KING said yes; the graphics represent the structured draw under the POMV with no additional draw.

CHAIR SHOWER said his point is that while the chart includes inflation-proofing, it does include any other payback such as to the constitutional budget reserve (CBR).

MR. KING said that's correct; the numbers only reflect a transfer of about \$1 billion from the earnings reserve to the principal account every year to account for inflation.

CHAIR SHOWER noted the talk about potential legislation that would join the earnings reserve account with the corpus and continue to have the one POMV draw. He asked how that would affect this legislation should that happen.

MR. KING deferred any discussion about potential legislation to the commissioner. As to aggregating the funds, he said it would in no way change how the numbers work.

CHAIR SHOWER asked Mr. Tangeman where the additional funds would come from if the budget is larger than \$3.2 billion.

COMMISSIONER DESIGNEE TANGEMAN said the conversation needs to start with what the budget looks like on February 13, what services it provides, and what programs Alaskans want added back into that \$3.2 billion. People generally understand that a \$4.8 billion budget is not sustainable, but they need to have confidence that the budget has been reduced sufficiently that they would be willing to start entertaining discussions about an income tax. "We currently don't have anything in the hopper right now as far as new revenue building," he said.

CHAIR SHOWER said the point is that the numbers are likely to change and the money has to come from somewhere, and that place is likely to be the earnings reserve.

He asked if he had considered the legal implications of requiring an individual to be eligible for the dividend this year to receive the back payment.

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COMMISSIONER DESIGNEE TANGEMAN explained that the PFD application requires the applicant to confirm that they are currently in Alaska and intend to stay in Alaska. The dividend was reduced for three years and the remedy to make recipients whole extends over three years. There is no intention to try to locate the people who are no longer in Alaska. "We can only do what's feasible with the system we have." He noted that a different bill proposes to make past recipients whole in this coming year and DOR would not object to that, but individuals who qualified in 2016 and immediately left the state could get the entire three-year backpay. SB 24 provides a glide path that allows the earnings reserve to grow a little bit due to a larger

balance in the earnings reserve. He summarized that the bill targets people who were eligible in 2016 and are still in Alaska and eligible for a dividend today.

MR. KING added that if the eligibility were removed there are technical aspects, such as unclaimed property and probate, that should be addressed with DOR or the administration.

SENATOR REINBOLD highlighted that while she has been in the legislature the entire budget has been somewhere between \$10.5 billion and \$16 billion. It is much larger than \$3.2 billion.

[4:44:55 PM](#)

CHAIR SHOWER asked Mr. Tangeman if DOR modeled a one-year and two-year option and to speak to why the three-year model was selected.

COMMISSIONER DESIGNEE TANGEMAN replied they did not model those shorter terms, but it would be an easy exercise to do so. Three years was selected to provide a gentler glide path and to ensure that the Alaskans who qualified and intend to stay hear receive the maximum benefit.

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CHAIR SHOWER held SB 24 in committee.

[4:47:20 PM](#)

There being no further business to come before the committee, Chair Shower adjourned the Senate State Affairs Standing Committee meeting at 4:47 pm.