

HOUSE FINANCE COMMITTEE
THIRD SPECIAL SESSION
[Meeting held at the Anchorage L.I.O.]
September 10, 2021
3:35 p.m.

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CALL TO ORDER

Co-Chair Merrick called the House Finance Committee meeting to order at 3:35 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Kelly Merrick, Co-Chair
Representative Dan Ortiz, Vice-Chair (via teleconference)
Representative Ben Carpenter
Representative Bryce Edgmon (via teleconference)
Representative DeLena Johnson (via teleconference)
Representative Andy Josephson
Representative Bart LeBon (via teleconference)
Representative Sara Rasmussen
Representative Steve Thompson (via teleconference)
Representative Adam Wool (via teleconference)

MEMBERS ABSENT

None

PRESENT VIA TELECONFERENCE

Representative Jonathan Kreiss-Tompkins; Angela Rodell, Executive Director, Alaska Permanent Fund Corporation; Alexei Painter, Director, Legislative Finance Division; Representative Dan Ortiz; Representative Bryce Edgmon; Representative DeLena Johnson; Representative Bart LeBon; Representative Steve Thompson; Representative Adam Wool.

SUMMARY

HJR 1 CONST AM: PERMANENT FUND; POMV; EARNINGS

HJR 1 was HEARD and HELD in committee for further consideration.

#hjr1

HOUSE JOINT RESOLUTION NO. 1

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

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Co-Chair Merrick asked Representative Kreiss-Tompkins to reintroduce the resolution.

REPRESENTATIVE JONATHAN KREISS-TOMPKINS (via teleconference) explained that the resolution did two things. First, the resolution would combine the Permanent Fund Earnings Reserve Account (ERA) and the fund principal into one singular Permanent Fund. Second, the fund would be managed by an unbreakable 5 percent of market value (POMV) draw with the existing statutory smoothing function using the first five of the six preceding fiscal years. The purpose of the legislation was to protect the entirety of the fund in perpetuity for future generations.

Co-Chair Merrick highlighted individuals available for questions.

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Co-Chair Foster remarked that passage of a constitutional amendment required a vote of the legislature and the public. He asked Representative Kreiss-Tompkins for detail.

Representative Kreiss-Tompkins explained that the passage of a constitutional amendment would require a two-thirds supermajority vote in the House and Senate. Additionally, an amendment would require a simple majority vote from the public in the next general election. He elaborated that if the legislation passed the legislature, the question would go to the public in the next election in November 2022. He noted it was a high bar.

Representative LeBon asked to hear Angela Rodell's view of the proposed resolution.

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ANGELA RODELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION (via teleconference), indicated that the Alaska Permanent Fund Corporation (APFC) was supportive of the legislation in its entirety. She stated the resolution reflected what had been an APFC board priority for the past 20 years. She highlighted the resolution's simplicity and creation of an endowment with a percent of market value. She noted there were a couple of clarifying amendments to the resolution language that APFC would suggest in terms of the timing of some of the dates and things. She categorized the items as cleanup or clarification. She was happy to elaborate if the committee desired.

Co-Chair Merrick indicated the committee would finish with questions and then hear from Ms. Rodell on the suggested amendments.

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Representative Rasmussen asked if there were any charts showing how the current statutory draw from the ERA compared with the 5 percent draw from a combined fund.

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION (via teleconference), replied that there would be no difference in the POMV calculation as a result of the change because currently the POMV calculation incorporated the entire fund.

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Representative Wool reported that the bill had been heard in the House Ways and Means Committee. He believed the legislation was appealing to many people in its current form. He stated that the House Ways and Means Committee had heard a desire to put the 5 percent draw in the state constitution in addition to a PFD formula. He remarked that one popular idea was a 50/50 split in which half of the draw went to state services and the other half went to PFD checks. He wondered if APFC did not care what happened to the POMV draw as long as it was limited to 5 percent.

Ms. Rodell reported that the corporation was indifferent once the 5 percent was drawn out of the fund. The corporation's focus was limited to the amount being drawn from the Permanent Fund, which APFC would like to see included in a constitutional amendment.

Representative Wool highlighted the concern that if 50 percent of the draw was paid out in PFD checks, the remaining 50 percent would not be sufficient for the government services many people were accustomed to. He surmised that locking the draw in the constitution would remove the fear of overdrawing the fund. He surmised that added revenue in the form of taxes would have to fill the void to pay for services. He asked the bill sponsor to share his feeling on the idea of attaching a formula to the constitutional amendment.

Representative Kreiss-Tompkins was open to the bill being a vehicle for a broader compromise to the fiscal problem, including any substantive amendments beyond the present language. He thought there were a couple of options such as placing an actual formula into the state constitution. He was personally fairly cautious about that option. He highlighted another option that had been discussed, which would put language in the constitution that guaranteed the formula as provided by law and the formula would remain in statute. He had more comfort with the second approach. He remarked that if there was a will to answer some of the problems that had been bedeviling the legislature and state over the last decade and there was a way to put some of them to bed, he would be open to the legislation acting as a vehicle including addressing the PFD in some way.

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Representative Wool asked if there were any other items in the constitution like education funding, where a dollar amount or a formula were specified. He wondered if there were any other occurrences in the constitution that spelled out how much money should go to a specific program. He asked for verification that putting a PFD formula in the constitution would prioritize the appropriation over anything else in the budget.

Representative Kreiss-Tompkins replied that the question presupposed there was a proposal to put a specific formula in the constitution. He clarified there was not currently a proposal in front of the legislature, and it was not a concept he was enthusiastic about. He was not aware of any specific financial formulas in the state constitution. He stated that the somewhat less proscriptive "as provided by law" approach was more consistent with other provisions in

the constitution that provided more flexibility as the legislature and government reacted to changing circumstances.

Representative Wool thought that if there was a provision including the language "as provided by law," the item would still be prioritized over other budget items.

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Vice-Chair Ortiz referenced that Representative Kreiss-Tomkins and Representative Carpenter had both been members of the Fiscal Policy Working Group. He asked if there was any consensus position regarding HJR 1.

Representative Kreiss-Tompkins responded that one of the working group recommendations was to have the Permanent Fund in an endowment structure with a constitutional POMV. He explained that the recommendation was reflected in the current HJR 1 language. He elaborated that there was a recommendation that none of the single policy recommendations stood on their own due to a lack of political support for passage. He did not believe there was political support for HJR 1 to pass the legislature. He characterized it as a "rearranging the deck chairs" situation. He believed there likely needed to be a broader comprehensive approach to gain support for the bill's passage. He detailed that a broader approach would include revenues, certainty on the dividend question, and other issues. He believed the issues were just as relevant as the working group recommendation on a constitutional POMV and a single fund structure for the Permanent Fund.

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Representative Carpenter stated that Representative Kreiss-Tomkins had done a good job summing the information up. He had nothing additional to add.

Representative LeBon asked Ms. Rodell to comment on how unusual it was for the Alaska Permanent Fund to contain an Earnings Reserve Account and how it was more traditional in the public endowment arena to have just one common fund. He asked Ms. Rodell to speak to why there was a greater advantage to rolling the funds together.

Ms. Rodell replied that the Permanent Fund constitutional amendment had been adopted by the voters 45 years back as of the coming November. She detailed that its adoption had occurred at a much simpler time from an investment and accounting perspective. She stated that the language was beautifully written as it provided a way to think about constitutional language and the flexibility it had provided every subsequent generation in terms of the fund. The language required the state to collect a percentage of the royalty revenue and that the royalty revenue would be deposited into the fund. She explained that the money could be used only for income producing investments and the resulting income went to the General Fund unless otherwise provided by law. She furthered that in 1980, the legislature created APFC and moved the management of the fund outside of the Department of Revenue over to the independently operated APFC. She explained there had been a thought at the time that income needed to be collected and held separately from the General Fund. She detailed that the dividend statutes had been put in place in their final form around 1982 or 1983; the fund had operated under those statutes ever since.

Ms. Rodell elaborated that APFC had gone beyond investing in bonds and collecting cash interest and principal payments off the bonds to investing in stocks, real estate, private equity, infrastructure, and hedge funds. Current accounting rules required APFC to define all increases in valuation that may occur from market movement as income. She clarified it was impossible to spend the income without selling the investment and collecting the associated cash, which was the reason the legislature created its definition of statutory net income and required that income to flow to the ERA. She explained that conforming the definition of income to create the current definition had been the compromise to the constitutional language.

Ms. Rodell elucidated that the reason the trustees had been behind a POMV classic endowment structure for 20 years was that it removed the artificial device in defining income, it allowed the fund to fully recognize the increased value over time, and APFC would no longer be required to annually ask for an inflation proofing appropriation. She explained that currently, the only way the principal could continue to purchase investments at the same level was through the inflation proofing appropriation mechanism. The state would no longer need to inflation proof the fund through an

appropriation. The change would also confirm the intergenerational desire put forth by the legislature on the fund. Legislative findings for the corporation were to maximize principal, minimize risk, and to ensure there was revenue for all generations of Alaskans. She shared that the POMV would fulfill the goals because it would create an equitable distribution annually, based on the calculation.

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Representative Rasmussen if APFC would be supportive of a one-time overdraw as part of a larger package to put the POMV in the constitution for its protection going into the future. She remarked on the lack of a comprehensive plan that would get the state through the next several years given how tight funds were in the General Fund.

Ms. Rodell replied that being disciplined around the draws from the fund was important for the fund's sustainability. She believed it was important to understand the full package and whether the one-time draw was really a one-time draw. She shared that based on her experience a one-time draw had not always been just a one-time draw.

Representative Rasmussen asked Mr. Painter to provide some history concerning the various funds. She believed that as finances became tighter around the state, it appeared people were looking to the various "slush funds" as they had been traditionally called. She thought it would make the most sense to put all incoming state revenue into the CBR in order to maximize the investments. She had heard the CBR did not make any money [earn any interest]. She thought it seemed like poor use of the state's resources if they were not trying to maximize every dollar.

Mr. Painter listed funds in addition to the Permanent Fund, ERA, and CBR. He detailed that the Statutory Budget Reserve (SBR) was created as a simple majority vote savings account to have in addition to the CBR, which required a three-quarter vote. He explained that most of the SBR balance had been added when there had been no debt to the CBR, and additional savings had been put in the SBR. He stated it had been refilled in the last year and it would be more of a policy choice by the legislature to put money in. Other funds were mostly designated for particular purposes such as the Power Cost equalization (PCE) Fund and the Higher Education Investment Fund, which were set up as a source of

ongoing support for programs. He explained that the legislature had made a policy choice that the programs needed a designated source of revenue and had set aside the money for the future.

Mr. Painter relayed that the remainder of the state funds were ongoing expenses or fund balance built up in a fund for a designated tax. He highlighted the alcohol and tobacco fund as an example. He detailed that in some years revenue exceeded projections, resulting in an additional fund balance remaining in the fund. He elaborated that the fund balance was used to smooth the cashflow throughout the year. He relayed that in general, the designated funds were created by the legislature as a mechanism to support certain programs on an ongoing basis.

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Representative Rasmussen highlighted a hypothetical scenario where all of the money from the various funds/accounts was moved into the Permanent Fund to create one account. Under the scenario, she asked if there was anything that would prohibit the legislature from appropriating the money from the General Fund via the annual 5 percent POMV draw.

Mr. Painter replied, "No." He noted that because of the lag in the averaging in the POMV draw, if \$1 billion was deposited into the Permanent Fund on the present day, it would not impact the POMV in the next year and it would only have a partial impact in the following year. He explained that in the short-term, the move would increase budget deficits, but it would balance out in the long-term.

Co-Chair Merrick asked Mr. Painter to explain the difference between a dedicated fund and a designated fund.

Mr. Painter replied that a dedicated fund could not be spent outside the purposes set out in the constitution or in the statehood compact. He elaborated that when Alaska had become a state, the Public School Trust Fund had been part of the statehood act. He explained that dedications were provisions that could not be broken through the appropriations process. Whereas designations were statutory provisions that indicate a past legislature's intent for a fund to be spent a certain way; however, designations were subject to appropriation. For example, a past legislature

may have intended for one-half of alcohol revenue to go towards treatment recovery programs, but it was subject to appropriation by future legislatures, unlike the dedicated funds.

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Representative Carpenter returned to the notion of formulas in the constitution. He referenced language in the proposed resolution and within the constitution specifying that at least 25 percent of all royalties went into the Permanent Fund. He stated there was precedent for how the constitution worked with regard to setting percentages and making something happen with the dollars the state dealt with. He elaborated that the statutory additional 25 percent that was supposed to go into the Permanent Fund had been followed most years with the exception noted by the state's chief auditor where statute had not been followed for a couple of years. To the best of his knowledge, the statutory formula had always been followed by the state in putting royalties from the oil industry into the Permanent Fund.

Representative Carpenter asked for clarification from Ms. Rodell on the balance of the ERA. He stated there had been dialogue in the current meeting painting a picture that the Permanent Fund had grown because the state had put oil royalties and other sums into the fund and allowed it to grow, which he agreed with. He stated that the resolution would move the balance of the ERA into the corpus of the fund that could not currently be touched. He asked how the current balance of the ERA came to exist. He asked if the ERA balance was a result of depositing oil royalties or other investment earnings into the account.

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Ms. Rodell responded that the ERA could only grow through the investment decisions made by the corporation. The fund had reached its current size due to a combination of things. She detailed that the amount available for appropriation had not been used each year and had remained fully invested with the principal of the Permanent Fund. She explained that the ERA could only grow by realizing gains; rebalancing; and by collecting cash, rental income off real estate, interest off of bonds, and stock dividends. She expounded that the statutory net income

continued to build and stayed fully invested and grew through the market valuation and via usage over the years by various legislatures. As of July 31, the balance of the ERA was \$13.1 billion. Of the total, \$3.4 billion had been earmarked for the FY 23 POMV and \$3 billion reflected unrealized gains, which left a remaining balance of \$6.7 billion uncommitted and available for future appropriation. She reported that APFC would have August 31 numbers available later in the current month. She shared that it typically took APFC three weeks to conduct reconciliations and determine the fund balance.

Representative Carpenter asked about the \$3.4 billion in ERA funds earmarked for the FY 23 POMV. He asked for verification that the amount reflected 5 percent of the total Permanent Fund [ERA and principal].

Ms. Rodell explained that the APFC books had been closed for FY 21. The amount reflected the average of the full value of fund assets (principal plus ERA balance) multiplied by 5 percent.

Representative Carpenter asked if the ERA grew with the income deposited annually by the Permanent Fund because of the 5-year lookback 5 percent draw, if not appropriated or partially appropriated by the legislature.

Ms. Rodell thought she understood Representative Carpenter's question. She provided a hypothetical scenario where the legislature only appropriated \$1.5 billion instead of the \$3.4 billion under the calculation. She explained that the difference between the two would remain in the ERA and continue to stay fully invested in the full asset allocation of the fund and would hopefully continue to grow (assuming the market had no substantial losses) and would be available to be included in future calculations that could result in a higher POMV calculation in a future year.

Representative Carpenter asked how the balance of the ERA came to exist. He asked if portions of the income deposited into the account over the past several years would have grown the size of the ERA if it had not been appropriated by the legislature.

Ms. Rodell answered that the POMV had been implemented in 2018. She asked if Representative Carpenter was talking

about prior to the implementation of the POMV. She explained that prior to the POMV the only money drawn from the ERA had been the amount for the PFD under a completely different basis. She explained that previous calculation was based on income, not market value. Additionally, an amount had been transferred each year from the ERA to the fund principal associated with inflation proofing. She confirmed there had been statutory net income left behind, which had been allowed to grow; however, there were years like 2009 where there were losses that counted against the Permanent Fund.

Representative Carpenter clarified that his question only pertained to the balance of the ERA and how it came to exist. He remarked that statutory net income was what the state and the people would recognize as the traditional formula used to determine the amount of earnings for the PFD. He stated there were a number of years where the statutory net income was deposited into the ERA and only a portion of the statutory number had been paid out in the PFD, leaving a portion of the money in the ERA, which had caused the ERA to grow. He continued that the statutory net income had not been paid out as directed by statute because the legislature had chosen not to [pay the full statutory amount]. He asked if he was correct.

Ms. Rodell indicated that the statement was correct but added that there had been investment decisions made over the years that substantially increased statutory net income in certain years. For example, one year, APFC had sold a multifamily holding that resulted in a substantial realized gain, causing a large amount of statutory net income to flow in. She agreed that the legislature did not use the entire ERA year-over-year.

Representative Carpenter thought it was important to acknowledge that while it was true the only way the fund grew was by putting money into it (from oil royalties or appropriation by the legislature), the spendable money in the ERA was a balance that existed because the legislature had chosen not to follow the statute and had left the money in the ERA. He elaborated that the legislature had elected not to spend all of the money on a PFD. He emphasized that spending the money down at present was no different than paying a statutory PFD in the past with the exception of the interest earned in recent years. He remarked that the

interest would not exist either if statute had been followed.

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Ms. Rodell did not have anything to add. She stated that how money was spent out of the ERA was a policy call for the legislature.

Representative Thompson asked how much was appropriated for inflation proofing in the current year.

Ms. Rodell replied that the amount came to between \$500 million and \$600 million. She detailed that the funding had not been appropriated and the language in the \$4 billion transfer from FY 20 specified the intent to forward fund inflation proofing. She was drawing a blank on the precise figure and would circle back with the information.

Representative Thompson assumed the \$4 billion transfer more than covered several years of inflation proofing. He asked if his understanding was accurate.

Ms. Rodell responded that the inflation proofing was only calculated on the principal balance, not the entire fund. Additionally, the inflation calculation was based on an entire year. The amount for FY 21 would have been \$577 million with an inflation rate of 1.3 percent. She elaborated that if there was an expectation inflation would increase substantially in the next couple of years, the number would grow. She expounded that because money had moved into the principal of the account, there was also a bigger base on the calculation.

Representative Thompson asked if inflation proofing would come out of the original 5 percent draw before being split up between operating and the PFD. Alternatively, he asked if the 5 percent would come out of the operating side only.

Ms. Rodell answered that under the POMV constitutional amendment there would no longer be a need for inflation proofing because it would eliminate the two account structure. She detailed that inflation would be automatically accounted for in the overall market value of the fund. The current challenge was that the principal did not get to hold onto any of the market value gain; therefore, it lost all of its inflation adjusted gain as

well because it could only capture its cost basis. Once the two account structure was eliminated, the need for inflation proofing was eliminated as well.

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Vice-Chair Ortiz stated his understanding that the [fiscal policy] working group and the governor had spoken about the need to put a revised spending cap into the [state] constitution. He asked if passage of the current version of HJR 1 constituted an effective spending cap and would reduce the need for anything further to be done to the constitution in that regard.

Mr. Painter replied that he did not want to speak for the administration, but the OMB director had testified to the Senate Finance Committee the previous day that the administration still believed a spending cap would be necessary to address times when oil revenue spiked again; having a constitutionalized POMV would not be an effective spending cap because there would be additional revenue.

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Representative Kreiss-Tompkins stated that he could not add anything in terms of the administration's perspective. He replied that he was not personally kept awake at night by the lack of revisions to Alaska's current spending limits. In many ways, HJR 1 (in its current form) represented a revenue limit. He stated given it was the preponderance of revenue the State of Alaska currently received, a revenue limit largely equated and effected to an expenditure limit as well. He believed that for many, but not all intents and purposes, a revenue limit and a constitutional POMV would substantially restrain spending. He addressed a hypothetical scenario where other non-Permanent Fund related revenue sources spiked unexpectedly due to volatility or other. Under the scenario, some may say an expenditure limit was important. He personally did not have a concern with the issue. He shared that the working group had recommended revisiting and revising spending limits. He stated that if it was a piece that would help find a broader solution, he could find a way to get behind it.

Representative Carpenter agreed with Vice-Chair Ortiz on the concept of the POMV draw being a spending limit on a source of income from the Permanent Fund. However, he

emphasized that it did not do anything in regard to royalties coming into the state. He noted that per the constitution only 25 percent of the entire oil royalties came to the state to be put into the Permanent Fund. He considered the remaining 75 percent of the oil royalties. He assumed the legislature would ignore the statute specifying that an additional 25 percent needed to go into the Permanent Fund. He remarked that both things would be spending caps of a sort because only 50 percent of the oil royalties could go into the General Fund for spending. He stated the only way there would be an effective spending cap on the amount of money available to the state was if 100 percent of the oil royalties, corporate income taxes, and all other taxes collected annually went into the Permanent Fund and only 5 percent was drawn from the fund. He remarked that he did not see the scenario happening. He thought the aforementioned scenario would be what was necessary if the HJR 1 structure were to be used as a spending cap.

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Representative Josephson referred to a Senate Finance Committee meeting Mr. Painter had participated in a couple of days back. He asked what portion of the current \$82 billion Permanent Fund balance resulted from the 25 percent royalty deposits made since 1977.

Mr. Painter deferred to Ms. Rodell.

Ms. Rodell did not have a breakdown in royalty between the 25 percent and the 50 percent. She could only speak to the amount of royalty deposited into the fund since inception, which was slightly more than \$18 billion.

Representative Josephson surmised that \$18 billion of \$82 billion would be the constitutionally required royalty portion of the current fund balance.

Ms. Rodell responded, "Yes."

Representative Josephson returned to a question by Representative Rasmussen about letting some of the sub-funds move into the CBR. He stated that Representative Harriet Drummond had made a convincing case that the Higher Education Investment Fund had earned over 20 percent in the

current year. He believed the CBR earned around 2 percent. He asked for the accuracy of his statement.

Mr. Painter replied that currently the CBR was invested to earn about 2 percent per year.

Representative Josephson reasoned that the Higher Education Investment Fund would be poorer if the monies were held by the CBR. He asked if that was what Mr. Painter was saying.

Mr. Painter agreed. He explained that it was due to the different cash needs of the CBR. For example, if the state had a balanced budget and the CBR did not need to be used for cash flow, the CBR could be invested more aggressively.

Representative Josephson addressed Ms. Rodell's statement that it would no longer be necessary to inflation-proof the fund if HJR 1 became part of the constitution. He thought it would then be necessary to repeal the statutes pertaining to inflation proofing. He provided a hypothetical scenario where the Permanent Fund earned 2 percent in a year and inflation was 5 percent. He asked for verification that under the scenario, it would be desirable to cover the other 3 percent. He believed inflation would still be "the thief in the dark."

Ms. Rodell replied with a hypothetical example where APFC bought a multi-family rental complex. She noted that real estate was a long-term investment and tended to hold its value through inflationary times. Under the scenario, APFC purchased the property for \$1.00 with \$0.75 from the fund principal and \$0.25 from the ERA. She explained that if APFC sold the complex for \$10 after 20 years, the principal would only receive the \$0.75 made in the original investment, whereas the ERA would receive \$9.25. Under the scenario, the new cost to purchase an equivalent property was \$10. She questioned how to purchase an equivalent property with the \$0.75 in the principal. She explained that if the state went to a POMV endowment as envisioned by HJR 1, APFC could buy a \$1 investment with the Permanent Fund and after 20 years, the fund would receive the full \$10 upon sale of the asset. She elaborated that over the course of time, as the asset's market value continued to increase, the state would receive 5 percent off of the investment (on an average value) to spend in terms of annual revenue available for appropriation. She expounded

that the fund would capture the full inflationary benefit by the increased market value.

Representative Carpenter thought Ms. Rodell had made an incorrect statement earlier. He referenced her statement that \$18 billion in total royalty payments had been made to the Permanent Fund since royalty payments began. He stated it had to include the 25 percent statutory requirement and the 25 percent constitutional requirement. He highlighted that it could not represent just the constitutional requirement.

Ms. Rodell clarified that she had indicated she did not know the individual components. She had stated she only knew that the total royalty deposits equaled slightly more than \$18 billion.

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Representative Josephson thought the information supported his position. He remarked that the 25 percent [constitutional requirement] had to be paid, while he believed payment of the other 25 percent [statutory requirement] was less clear. He reasoned if the amount was \$18 billion for both items, it had to be less than that for the constitutionally required portion. He asked if he was accurate.

Ms. Rodell replied, "Yes, you are correct."

Co-Chair Merrick asked Ms. Rodell to talk about the amendment proposals.

Ms. Rodell indicated the corporation had two suggestions for the committee's consideration. The first applied to Section 2(c). She read the current language: "The permanent fund may be used to pay costs associated with investments made under (a) of this section." She respectfully requested adding language to clarify that the fund could be used for management and investments. For example, currently the corporation's budget was funded out of the ERA and any money not used to manage the fund lapsed back into the ERA. She explained it was possible to make the argument that the current HJR 1 language meant APFC would require general funds to manage the fund. She expounded that APFC wanted to ensure it could continue to use the Permanent Fund as a

source for managing and investing the fund as it had for the past 40 years.

Ms. Rodell relayed that the second suggestion pertained to Section 3. She read from the section:

On June 30, 2023, an amount equal to the unencumbered balance on November 8, 2022, of the earnings reserve account established by law shall be deposited...

Ms. Rodell clarified that APFC was only able to reconcile its balances on a monthly basis. She explained it was impossible to compute an accurate balance other than on a month end. The corporation suggested changing the November 8th date to a month end date. She recommended that the committee may want to give some consideration about the reference of two different timeframes and what happened to the unencumbered balance and the value of the ERA in the time period between the marks. For example, if the mark was November 30 and the deposit was June 30, there could be substantial market volatility between the two dates that had not been taken into consideration, which could create a conflict in the amount. She suggested the amount on the transfer date should be any unencumbered balance remaining in the ERA, which would avoid any fluctuations in the value.

Co-Chair Merrick asked Representative Kreiss-Tompkins if he agreed with the suggested amendments.

Representative Kreiss-Tompkins replied that he was supportive of the second suggested revision that corrected a technical mishap. Additionally, he was supportive of the first recommendation given the available information.

Representative Josephson looked at [Section 2] subsection (c) and understood it would become dedicated if it passed because it was part of a [constitutional] amendment. He stated it spoke to him in terms of the importance of designated general funds. He stated that "we want certain funds designated for the operation and maintenance of an institution." He elaborated that they did not want the funds to go into the CBR or to talk about them at great length every year or for the funds to compete with every other program every year. He continued it was understood that certain funds were needed for the Permanent Fund. He stated there was a strong presumption that the state could

sell off the Permanent Fund building, which he did not want to do. There was also a strong presumption that APFC needed the building and belonged there in order to enable the corporation to operate and to prevent having to discuss the topic annually. He thought subsection (c) was illustrative of the reason for designated general funds and why some were swept and needed to be unswept.

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Co-Chair Merrick asked if Mr. Painter had a comment.

Mr. Painter responded in the negative.

Representative Carpenter thought Representative Josephson's comments made sense. He asked what the term "management" encompassed in regard to Ms. Rodell's recommendation. He asked if management meant fees and monies required to make investments or to recoup the funds (e.g., attorney fees). Alternatively, he wondered if it included management of the corporation. He saw the two things as separate.

Ms. Rodell replied that the language as currently written could be interpreted to mean the fund could only be used to pay the cost basis of an investment. The term management would mean everything from paying external managers to manage an investment or paying for corporate expenses to manage an investment. She explained that currently, APFC directly managed and invested almost 45 percent of the fund.

Representative Carpenter agreed with Representative Josephson. He thought APFC's operating cost needed to be an annual discussion.

Representative Rasmussen asked Mr. Painter for the current total of all the state's funds combined (i.e., CBR, SBR, PCE, Higher Education Investment Fund) outside of the Permanent Fund.

Mr. Painter responded that he would have to get back to the committee with a precise number. He excluded retirement accounts and included the value of the General Fund and Other Non-Segregated Investments (GeFONSI). He noted that GeFONSI funds were often not necessarily spendable because they were ongoing.

Representative Rasmussen referenced Mr. Painter's mention of GeFONSI non-spendable ongoing expenses. She asked if there was anything prohibiting the accounts from being transferred and coming out of the General Fund.

Mr. Painter replied that many of the GeFONSI funds were already obligated. He elaborated that the funds represented items such as capital projects that had been appropriated for ongoing projects. He explained that the state still had the cash, but it would be necessary to repeal the underlying appropriation to get at the funds [for another use]. He did not believe the funds were necessarily available without going back and repealing half finished capital projects. He used another example and stated that by federal law, the state could not spend the International Airport Fund on general government; the money had to remain with the airports. Likewise, the Exxon Valdez Oil Spill Investment Fund with a balance of \$200 million had to be used for purposes specified in the settlement. He cited the Alaska Mental Health Trust as another example where funds were under legal obligation to a particular purpose.

Mr. Painter stated that the designated funds only, were the sweepable funds. He estimated that between the current balance of the PCE fund at approximately \$1 billion, the CBR at about \$1 billion, the SBR (if sweepable), the Higher Education Investment Fund, and others, the total balance was around \$3 billion. He remarked that the designated funds supported ongoing appropriations; therefore, sweeping them to the CBR would significantly increase the deficit.

HJR 1 was HEARD and HELD in committee for further consideration.

Co-Chair Merrick reviewed the schedule for the following meeting.

ADJOURNMENT

[4:47:35 PM](#)

The meeting was adjourned at 4:47 p.m.