

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

February 3, 2022

3:03 p.m.

MEMBERS PRESENT

Representative Jonathan Kreiss-Tomkins, Chair
Representative Matt Claman, Vice Chair
Representative Geran Tarr
Representative Andi Story
Representative Sarah Vance
Representative James Kaufman
Representative David Eastman

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

CS FOR SENATE BILL NO. 32(FIN)

"An Act establishing the Alaska middle college program for public school students; relating to the powers of the University of Alaska; and providing for an effective date."

- MOVED CSSB 32(FIN) OUT OF COMMITTEE

HOUSE BILL NO. 251

"An Act relating to the Board of Trustees of the Alaska Permanent Fund Corporation; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 158

"An Act relating to contributions from permanent fund dividends to the general fund."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 32

SHORT TITLE: COLLEGE CREDIT FOR HIGH SCHOOL STUDENTS

SPONSOR(S): SENATOR(S) STEVENS

01/25/21 (S) PREFILE RELEASED 1/8/21
01/25/21 (S) READ THE FIRST TIME - REFERRALS
01/25/21 (S) EDC, FIN
03/08/21 (S) EDC AT 9:00 AM BUTROVICH 205
03/08/21 (S) Heard & Held
03/08/21 (S) MINUTE(EDC)
03/17/21 (S) EDC AT 9:00 AM BUTROVICH 205
03/17/21 (S) Moved SB 32 Out of Committee
03/17/21 (S) MINUTE(EDC)
03/19/21 (S) EDC RPT 5DP
03/19/21 (S) DP: HOLLAND, HUGHES, STEVENS, MICCICHE,
BEGICH
03/22/21 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/22/21 (S) Heard & Held
03/22/21 (S) MINUTE(FIN)
03/29/21 (S) FIN RPT CS 4DP NEW TITLE
03/29/21 (S) DP: STEDMAN, BISHOP, WILSON,
WIELECHOWSKI
03/29/21 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/29/21 (S) Moved CSSB 32(FIN) Out of Committee
03/29/21 (S) MINUTE(FIN)
04/07/21 (S) TRANSMITTED TO (H)
04/07/21 (S) VERSION: CSSB 32(FIN)
04/09/21 (H) READ THE FIRST TIME - REFERRALS
04/09/21 (H) EDC, STA
04/19/21 (H) EDC AT 8:00 AM DAVIS 106
04/19/21 (H) Heard & Held
04/19/21 (H) MINUTE(EDC)
05/05/21 (H) EDC RPT 2DP 4NR
05/05/21 (H) DP: DRUMMOND, STORY
05/05/21 (H) NR: CRONK, GILLHAM, ZULKOSKY, PRAX
05/05/21 (H) EDC AT 8:00 AM DAVIS 106
05/05/21 (H) Moved CSSB 32(FIN) Out of Committee
05/05/21 (H) MINUTE(EDC)
05/11/21 (H) STA AT 3:00 PM GRUENBERG 120
05/11/21 (H) -- MEETING CANCELED --
05/15/21 (H) STA AT 10:00 AM GRUENBERG 120
05/15/21 (H) Heard & Held
05/15/21 (H) MINUTE(STA)
01/27/22 (H) STA AT 3:00 PM GRUENBERG 120
01/27/22 (H) Heard & Held
01/27/22 (H) MINUTE(STA)
02/03/22 (H) STA AT 3:00 PM GRUENBERG 120

BILL: HB 251

SHORT TITLE: BD OF TRUSTEES OF THE AK PERM. FUND CORP.

SPONSOR(s) : REPRESENTATIVE(s) JOSEPHSON

01/18/22 (H) PREFILE RELEASED 1/7/22
01/18/22 (H) READ THE FIRST TIME - REFERRALS
01/18/22 (H) STA, FIN
02/03/22 (H) STA AT 3:00 PM GRUENBERG 120

BILL: HB 158

SHORT TITLE: PFD CONTRIBUTIONS TO GENERAL FUND

SPONSOR(s) : REPRESENTATIVE(s) PRAX

03/31/21 (H) READ THE FIRST TIME - REFERRALS
03/31/21 (H) STA, FIN
05/18/21 (H) STA AT 3:00 PM GRUENBERG 120
05/18/21 (H) Heard & Held
05/18/21 (H) MINUTE(STA)
02/03/22 (H) STA AT 3:00 PM GRUENBERG 120

WITNESS REGISTER

SENATOR GARY STEVENS

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Offered closing comments on CSSB 32(FIN), as the prime sponsor.

REPRESENTATIVE ANDY JOSEPHSON

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Introduced HB 251, as the prime sponsor.

MAX KOHN, Staff

Representative Andy Josephson

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 251, on behalf of Representative Josephson, prime sponsor.

MICHAEL TOBIN, PhD, Board Member

350 Juneau

Juneau, Alaska

POSITION STATEMENT: Offered invited testimony in favor of HB 251.

REPRESENTATIVE PRAX

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Reintroduced HB 158, as the prime sponsor.

ACTION NARRATIVE

[3:03:35 PM](#)

CHAIR JONATHAN KREISS-TOMKINS called the House State Affairs Standing Committee meeting to order at 3:03 p.m. Representatives Tarr, Story, Kaufman, Vance, Claman, Kreiss-Tomkins were present at the call to order. Representative Eastman arrived as the meeting was in progress.

SB 32-COLLEGE CREDIT FOR HIGH SCHOOL STUDENTS

[3:04:50 PM](#)

CHAIR KREISS-TOMKINS announced that the first order of business would be CS FOR SENATE BILL NO. 32(FIN), "An Act establishing the Alaska middle college program for public school students; relating to the powers of the University of Alaska; and providing for an effective date."

CHAIR KREISS-TOMKINS invited closing comments from committee members.

[3:05:31 PM](#)

REPRESENTATIVE STORY believed that the bill would be a "win win" for students, as it would help them in their postsecondary opportunities. She thanked the sponsor for bringing it forward.

[3:05:54 PM](#)

REPRESENTATIVE KAUFMAN noted that his wife, a retired high school teacher, thought the legislation was a good idea; therefore, he expressed his support for the bill.

[3:06:13 PM](#)

SENATOR GARY STEVENS, Alaska State Legislature, prime sponsor of CSSB 32(FIN), thanked the committee for hearing the bill, as well as the University of Alaska for working so closely with his office. He said the intent of the legislation is to increase the availability of college courses for students.

[3:06:58 PM](#)

REPRESENTATIVE CLAMAN moved to report CSSB 32(FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSSB 32(FIN) was moved from the House State Affairs Standing Committee.

HB 251-BD OF TRUSTEES OF THE AK PERM. FUND CORP.

[3:07:34 PM](#)

CHAIR KREISS-TOMKINS announced that the next order of business would be HOUSE BILL NO. 251, "An Act relating to the Board of Trustees of the Alaska Permanent Fund Corporation; and providing for an effective date."

[3:08:03 PM](#)

REPRESENTATIVE ANDY JOSEPHSON, Alaska State Legislature, prime sponsor, introduced HB 251. He paraphrased the sponsor statement [included in the committee packet], which read as follows [original punctuation provided]:

HB 251 adds a layer of protection from political influence between the Permanent Fund Corporation and elected officials. The Permanent Fund is vital to Alaskans, our economy, and our state government, and protecting it from short-term politics is paramount. Oversight of the Permanent Fund should rest in the hands of the public to a greater degree than it does today, and that is exactly what HB 251 seeks to accomplish. Under current law, the Board of Trustees of the Permanent Fund Corporation have full oversight over the 80-billion-dollar fund entrusted to the current and future generations of Alaskans. AS 37.13.050(a) establishes the sole power to appoint and remove the members of the board in the governor. No legal mechanisms currently exist to insulate the selection of board members from the political pressure that comes with managing our largest state fund.

This bill shifts the direct selection of board members away from all politicians. Instead of its current structure, the governor, along with the speaker of the house of representatives, the senate president, and members of the minority in each body would select the nine members of an appointment committee. The nine-member appointment committee is entrusted with the

power to select the Board of Trustees. The board increases under this bill from six to seven members, and the public members of the board increases from four to six. Just as under current law, one seat on the board remains reserved for the Commissioner of Revenue and all public members must have backgrounds and competence in the financial or business management sectors. HB 251 adds a mandate that one seat be reserved for a member with experience in socially responsible investing.

The creation of an appointment committee does not simply shuffle oversight around from one politician to another. It insulates the fund by an extra degree from politicians all together. The Permanent Fund embodies Alaskans' ownership of their resources. Ownership by the people must be protected at all costs and the structure of the board should be improved for that purpose. I urge your support for HB 251 and a step toward protecting the current and future generations of Alaskans.

CHAIR KREISS-TOMKINS invited questions from the committee.

[3:15:31 PM](#)

REPRESENTATIVE EASTMAN observed that "socially responsible investing" is not defined in the bill. He asked who decides what constitutes as socially responsible investing.

REPRESENTATIVE JOSEPHSON said it's a term of art; therefore, the definition could be found and identified. He reiterated that only one seat, or one-seventh of the Board of Trustees (the board), would "wear a hat" of responsible investing and communicate those concerns accordingly. He suggested that the committee consider the term environmental social governance (ESG).

[3:16:37 PM](#)

REPRESENTATIVE EASTMAN characterized the reference to the term ESG as "even more concerning." He shared his understanding that those who fall under that definition believe that it's not socially responsible to invest in petroleum production. He surmised that many of his constituents would not support that addition to the board. He asked, "Is that what we're

considering or is there a definition that would preclude that from happening."

REPRESENTATIVE JOSEPHSON replied, "There's no definition that you would favor."

[3:17:17 PM](#)

REPRESENTATIVE KAUFMAN asked whether it would be considered socially responsible to decline investments in one of Alaska's primary industries.

REPRESENTATIVE JOSEPHSON said he did not sit on the committee; however, he appreciated the concern. He believed that the argument made by Representative Kaufman may work in the short-term but not in the long-term. He added that he enjoys seeing throughput and high prices; however, no one will be here forever, and the board should have that debate. He reiterated his support for reserving a seat for a member with socially responsible investing experience.

REPRESENTATIVE KAUFMAN questioned whether the selection [appointment] board could nominate from within.

REPRESENTATIVE JOSEPHSON confirmed that they could not select one of their own members.

[3:19:31 PM](#)

REPRESENTATIVE CLAMAN, referencing Section 6, asked why the sponsor elected to have the appointment committee fill a vacancy rather than the appointing authority.

[3:20:06 PM](#)

MAX KOHN, Staff, Representative Andy Josephson, Alaska State Legislature, said Section 6 provides that vacancies on the Board of Trustees are filled by the appointment committee; another section, specifies that a vacancy on the appointment committee would be filled by the office that was charged with the appointment of the appointment committee.

REPRESENTATIVE CLAMAN questioned why there wasn't more guidance in the bill for selecting people to the board.

REPRESENTATIVE JOSEPHSON was unsure whether there isn't rule making from [APFC] that provides more detail; however, the

current law doesn't require that. He added that the governor merely considers whether the person is knowledgeable in investing and finance or if he/she is in the governor's cabinet.

REPRESENTATIVE CLAMAN opined that if the goal is to create a clear, transparent process, applicants should be required to submit a resume and answer questions for the appointment committee to consider. He expressed concern about the omittance of such a requirement.

REPRESENTATIVE JOSEPHSON said he would consider that a friendly amendment. He summarized two additional features of the bill as follows: the staggering was changed so that a sitting governor could not remove members as swiftly as under current law; secondly, the director of the Board of Trustees should only be removed at will if 5 of 7 members support the removal to depoliticize and keep continuity of APFC operation.

REPRESENTATIVE CLAMAN, referencing the appointment committee, inquired about the additional level of bureaucracy that this bill would implement.

REPRESENTATIVE JOSEPHSON said the goal is to have once-removed authority over the appointment and to insulate the board.

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REPRESENTATIVE TARR stated her concern that the bill would politicize the board more than the current system. Additionally, she expressed confusion about the differing term limits in the bill.

REPRESENTATIVE JOSEPHSON contended that the current system is more politicized, as it allows the governor to select four appointees that select a chair who can rewrite resolutions and redirect the investment strategy of the fund.

MR. KOHN added that the appointment committee members are appointed to indefinite terms, serving essentially at the discretion of the office charged with appointing them; alternatively, the board members serve six-year terms. He noted that if the board had a vacancy that was filled by the appointment committee, he/she would fill the remainder of the six-year term.

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REPRESENTATIVE TARR said she's trying to decide what the legislature's role is in regard to this bill, as the LB&A committee took its own action is it relates to the Alaska Permanent Fund. She addressed the removal of Angela Rodell, the former Chief Executive Officer (CEO) of APFC, adding that the vote by the board was nearly unanimous. She opined that if her removal was as questionable as some are suggesting, the vote wouldn't have been as close. Additionally, she shared her understanding that there is a lack of information to substantiate the claims that her removal was political; on the contrary, there are existing performance reviews that show issues going back to 2018. She further indicated that if Ms. Rodell's removal was the catalyst for the bill, she is looking for the information that would substantiate that the removal was political in nature. She concluded by pointing out that the legislature already had the opportunity to confirm the commissioner of the Department of Revenue (DOR).

REPRESENTATIVE JOSEPHSON said he wished he agreed more. He added that he's not allowed to discuss the happenings of LB&A; nonetheless, he indicated that as a matter of public record, motions were made, without objection, to investigate and spend a lot of money. He noted that to read the stack of documents on the removal of Ms. Rodell is a 20-hour exercise. He conveyed that contrary to statements made by the governor about his involvement, there is growing evidence that there was a series of meetings that has given legislators real concern about the issue. He emphasized that some of the public believes that the decision was highly politicized. He believed that the bill would spread the authority and give it to appointees. He reminded the committee that 9 people would be selecting 6 people; therefore, more hands would be involved in the process. He pointed out that because Alaska law requires a three-quarter vote to override a veto by the governor, the state has the strongest governor model in the country. He opined that HB 251 is the best concept that he could conceive of, after consulting people that he considers intelligent, to diffuse and spread that power around every political entity and implement an environmental consideration. He concluded by noting that the only question is whether it breaches the Bradner v. Hammond test.

CHAIR KREISS-TOMKINS welcomed invited testimony.

[3:34:26 PM](#)

MICHAEL TOBIN, PhD, Board Member, 350 Juneau, read the following prepared statement:

Good afternoon, Chairman Kreiss-Tompkins and members of the House State Affairs Committee. My name is Mike Tobin. I live in Juneau. I am a retired emergency doctor. As an emergency doctor one is constantly in the position of making complex decisions with limited information. Knowledge is golden. It is in that spirit that I testify in favor of HB 251.

I will focus my remarks on adding a trustee to the board of the Alaska Permanent Fund Corporation who has "wide experience in socially responsible investing ". A trustee has a fiduciary duty, defined under the Alaska statutes, to invest so as to obtain the largest return possible while maintaining the safety of the principal.

Socially responsible investing is sometimes called sustainable investing and sometimes also called Environmental, Social, and Governance (ESG) investing. The Permanent Fund is a sovereign wealth fund, an investment fund owned by a political entity and as such has been a leader in its field.

The Permanent Fund is one of the forty members of the International Forum of Sovereign Wealth Funds (IFSFW). Some other members include Australia, China, Turkey, Russia, the United Arab Emirates, Ireland, Palestine, and Nigeria, France, and Italy. At the organization's virtual London meeting in November 2021, Angela Rodell of the Alaska Permanent Fund, was elected chairperson of the organization. She said, "As we turn the page from the global pandemic and look forward, the membership of IFSWF is uniquely positioned to provide leadership on the global issues of the day, whether they are climate change impacts, inequality divides, or governance challenges." A press release from that meeting noted that "Front and center of all the discussions was the integration of climate change and wider environmental, social, and governance issues into their investment strategies."

Not only sovereign wealth funds like the Permanent Fund but also banks and asset managers like Vanguard and BlackRock are developing policies and metrics

regarding socially responsible investing. The largest asset manager in the world is BlackRock, with \$9.5 Trillion under management. That is the equivalent of 115 Permanent Funds. CEO Larry Fink in his yearly letter to CEOs of companies in which BlackRock invests, had this to say about sustainable investing, "We focus on sustainability not because we are environmentalists but because we are capitalists and fiduciaries to our clients. Every company and every industry will be transformed by the transition to a net zero world. The question is will you lead, or will you be led?"

In the same vein, two years ago Mark Carney, Governor of the Bank of England, noted that "changes in climate policies, new technologies, and growing physical risks will prompt reassessments of the values of virtually every financial asset."

So, what is fiduciary responsibility in this world with a growing impetus toward decarbonization, with a changing regulatory environment and increasing legal challenges?

Leaders of the financial industry have concluded that the old concept that quantitative assessments of past performance, with various extrapolations into the future, is not sufficient to evaluate potential risks and benefits of particular companies, industries, or portfolios going forward. Investors are increasingly articulating an investment time horizon and defining which risks warrant consideration beyond standard measures such as market volatility. The time horizon for young Alaskans is decades. The fiduciary duty of trustees of the Fund to these younger beneficiaries should include risk assessment of social and environmental processes that will be evident in 2050 and beyond.

That is why HB 251 is timely and appropriate to the financial world in which the Permanent Fund must operate. Adding one member to the Permanent Fund Board of Trustees who is experienced in the increasingly complex world of socially responsible investing with its evolving concepts and metrics will add to the fiduciary capability of our fund's managers. Thank you.

[3:38:41 PM](#)

CHAIR KREISS-TOMKINS announced that HB 251 would be set aside.

HB 158-PFD CONTRIBUTIONS TO GENERAL FUND

[3:38:49 PM](#)

CHAIR KREISS-TOMKINS announced that the final order of business would be HOUSE BILL NO. 158, "An Act relating to contributions from permanent fund dividends to the general fund."

[3:39:04 PM](#)

REPRESENTATIVE PRAX, Alaska State Legislature, prime sponsor, reintroduced HB 158. He presented the sponsor statement [included in the committee packet], which read as follows [original punctuation provided]:

House Bill 158 sets up a mechanism to give Alaskans the choice of donating all or a portion of their Permanent Fund dividends (PFDs) directly to the state's general fund. Participants can donate from a minimum of \$25 to the full amount of their PFD in increments of \$25.

A donation to the State General fund, in some case, can be counted as a charitable donation for federal tax purposes. It is advised, however, that Alaskans consult with a tax professional to verify how this may apply to them individually.

Donations through HB 158 are subject to a seven percent administrative fee paid to the Permanent Fund Dividend Division. HB 158 also clarifies that donations through Pick.Click.Give., take priority over donations to the general fund if there is a shortfall.

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CHAIR KREISS-TOMKINS invited questions from the committee.

[3:43:32 PM](#)

REPRESENTATIVE STORY said she had heard from constituents that when they chose not to receive a PFD, they thought they were saving the state money; however, she learned in clarification that in actuality, their dividend would be redistributed to recipients instead of going to the state. She asked whether that explanation is correct.

REPRESENTATIVE PRAX confirmed that currently, the dividend amount is determined by an appropriation process wherein the total amount is divided by the number of PFD applications. He stated if an individual chooses not to apply, the money that he/she is otherwise entitled to, would be redistributed to those who did apply. He explained that presently, the only way to return a dividend to the general fund is to first accept the dividend check and either write a second check to the state or return it to DOR. Therefore, HB 158 would make it easier to exercise the option of returning all or a portion of the dividend back to the general fund.

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REPRESENTATIVE CLAMAN pointed out that [everyone] looks at ways to reduce their tax burden on an individual level; consequently, he asked Representative Prax whether he thinks the PFD is treated as ordinary income, as opposed to wages, in that the average person pays about 20 percent tax on the dividend regardless of how much money they make.

REPRESENTATIVE PRAX said, "that's close enough" [to his understanding].

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REPRESENTATIVE CLAMAN remarked:

It's this kind of interesting dynamic that if I apply for my dividend and get approved and I get a 1,000-dollar dividend and I immediately give that money back to the state, I will pay the government 20 percent - 200 dollars - for the privilege of having received 1,000 dollars ... [and] give it back to the state.

REPRESENTATIVE CLAMAN expressed his concern because the receipt of that dividend, even for a split second before immediately returning it, stands to be taxed. He added that the "deductability" reduces some of the tax burden, but the tax

incurred as a taxpayer would still be greater than what he/she would receive from the deduction.

REPRESENTATIVE PRAX argued that the point made by Representative Claman is a "separate consideration." He remarked, "If there is money appropriated and someone wants to give that money back, this makes it easier for them to do that."

REPRESENTATIVE CLAMAN agreed on some level; however, he recalled that according to his tax accountant, a tax deduction generally results in savings of 20-35 percent of the deduction. Therefore, if an individual gives an organization \$100, the reduction in the tax owed is \$20 to \$35, as opposed to \$100. Consequently, the process of giving to the government would be made easier, but those selecting that option would be paying the federal government more than \$100 dollars depending on the dividend amount.

REPRESENTATIVE PRAX acknowledged that it would be an itemized deduction, not a tax credit.

[3:50:07 PM](#)

REPRESENTATIVE CLAMAN shared his understanding that folks in less advantageous economic positions would be unlikely to see any benefit from the deduction, as the size of the standard deduction is so large for lower income families. He explained that lower income families are unlikely to donate the amount of money that would ever make the "deductability" of their dividend worthwhile.

REPRESENTATIVE PRAX replied, "Yes, I get it, that is the arithmetic of it." He believed that the "real" debate from the legislature's standpoint is whether everyone considers state services equally valuable. He posited that the proposed legislation would give those who value state services a choice to return their PFD to the general fund. He remarked, "Rather than the legislature deciding for someone to - from somebody who thinks the service is less valuable to them - they're being forced to pay for the service."

CHAIR KREISS-TOMKINS shared his understanding that the point made by Representative Claman is that rather than someone receive the PFD, give it back to the state, and have the federal government "tie the money," there may be some logic in reducing the PFD amount, thereby having the same effect of the state keeping a portion of the PFD without the federal government

taking a chunk out. He asked Representative Claman whether that was an accurate summary.

REPRESENTATIVE CLAMAN answered, "partly." He explained that fundamentally, the fact that people pay 20 percent of their dividend to the federal government is routinely forgotten in the PFD discussion. He argued that the debate can't be had without acknowledging that this is not a straight cash transaction. He opined that everyone is losing in the proposed equation.

[3:55:11 PM](#)

REPRESENTATIVE TARR, referencing the document titled, "PFD Deductions Priority Order" [included in the committee packet], asked whether any other mechanisms were pursued to address the challenges that have been discussed.

REPRESENTATIVE PRAX said if HB 158 is adopted, it would be the next bullet point at the bottom of the list. Therefore, the return to the state would be "the lowest priority" if an individual tried to donate more than he/she received.

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REPRESENTATIVE EASTMAN suggested that the language on page 1, line 14, which provides that seven percent of the money contributed to the state general fund will be used for administrative costs, is not necessary, as the money is not actually leaving the state coffers.

REPRESENTATIVE PRAX confirmed that the money is going "from one pocket to another pocket;" however, he explained that the Permanent Fund Dividend Division goes through extra work to administer this, which is where the 7 percent comes in.

CHAIR KREISS-TOMKINS announced that HB 158 would be held over.

[3:58:24 PM](#)

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 3:58 p.m.