

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

May 13, 2021

12:03 p.m.

MEMBERS PRESENT

Representative Ivy Spohnholz, Chair
Representative Adam Wool, Vice Chair
Representative Andy Josephson
Representative Calvin Schrage
Representative Andi Story
Representative Mike Prax
Representative David Eastman

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Dan Ortiz
Representative Sara Rasmussen

COMMITTEE CALENDAR

HOUSE BILL NO. 202

"An Act relating to the Alaska permanent fund; relating to dividends for state residents; relating to the use of certain state income; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 37

"An Act relating to deposits into the dividend fund; relating to income of and appropriations from the earnings reserve account; relating to the taxation of income of individuals, partners, shareholders in S corporations, trusts, and estates; relating to a payment against the individual income tax from the permanent fund dividend disbursement; repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 202

SHORT TITLE: PERMANENT FUND DIVIDEND; ROYALTIES

SPONSOR(S): REPRESENTATIVE(S) MERRICK

05/05/21 (H) READ THE FIRST TIME - REFERRALS
05/05/21 (H) W&M, FIN
05/07/21 (H) FIN AT 1:30 PM ADAMS 519
05/07/21 (H) <Bill Hearing Canceled>
05/11/21 (H) W&M AT 11:30 AM DAVIS 106
05/11/21 (H) -- MEETING CANCELED --
05/13/21 (H) W&M AT 11:30 AM DAVIS 106

BILL: HB 37

SHORT TITLE: INCOME TAX; PERMANENT FUND; EARNINGS RES.

SPONSOR(S): REPRESENTATIVE(S) WOOL

02/18/21 (H) PREFILE RELEASED 1/8/21
02/18/21 (H) READ THE FIRST TIME - REFERRALS
02/18/21 (H) CRA, STA, FIN
04/28/21 (H) W&M REPLACES CRA REFERRAL
04/28/21 (H) BILL REPRINTED
05/11/21 (H) W&M AT 11:30 AM DAVIS 106
05/11/21 (H) -- MEETING CANCELED --
05/13/21 (H) W&M AT 11:30 AM DAVIS 106

WITNESS REGISTER

REPRESENTATIVE KELLY MERRICK

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Introduced HB 202, as the prime sponsor.

TALLY TEAL, Staff

Representative Kelly Merrick

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Presented a sectional analysis of HB 202 on behalf of Representative Merrick, prime sponsor.

PAULYN SWANSON, Communications Manager

Alaska Permanent Fund Corporation

Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 202.

EMILY NAUMAN, Deputy Director

Legislative Legal Services

Juneau, Alaska
Legislative Affairs Agency

POSITION STATEMENT: Answered questions during the hearing on HB 202.

REPRESENTATIVE ADAM WOOL
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced HB 37, as the prime sponsor.

KEN ALPER, Staff
Representative Adam Wool
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented a PowerPoint presentation, titled "House Bill 37," dated 5/13/21, on behalf of Representative Wool, prime sponsor.

ACTION NARRATIVE

[12:03:01 PM](#)

CHAIR IVY SPOHNHOLZ called the House Special Committee on Ways and Means meeting to order at 12:03 p.m. Representatives Wool, Josephson, Schrage, Story, Eastman, and Spohnholz were present at the call to order. Representative Prax arrived as the meeting was in progress. Also present was Representative Ortiz and Rasmussen.

HB 202-PERMANENT FUND DIVIDEND; ROYALTIES

[12:03:50 PM](#)

CHAIR SPOHNHOLZ announced that the first order of business would be HOUSE BILL NO. 202, "An Act relating to the Alaska permanent fund; relating to dividends for state residents; relating to the use of certain state income; and providing for an effective date."

[12:04:16 PM](#)

REPRESENTATIVE KELLY MERRICK, Alaska State Legislature, prime sponsor, introduced HB 202. She read the following prepared statement:

Since the decline in oil prices caused a huge revenue shortfall in fiscal year 2015, the state has struggled

to pay the permanent fund dividend according to the 43-year-old statute. After former Governor Walker reduced the FY 17 PFD, the dividend has been determined by available funds after meeting our requirements to fund services. In recognition of our new fiscal reality, the 2016 legislature restructured out budget around a percent of market value (POMV) structure that meets our constitutional obligations for services and serves as kind of a spending cap. We must reconsider our PFD formula within the POMV framework, and let's recognize when we protect the POMV, we maintain fiscal stability and a low-tax environment for both families and businesses.

When people think of the PFD, they think of oil money, and while that's the foundation of the permanent fund, the dividend that people receive is no longer based on resource development, but instead on various investments that are managed by the Alaska Permanent Fund Corporation. HB 202 ties the dividend directly to resource development in the state by setting aside a portion of the royalties received by the state for dividends. Specifically, it sets aside 30 percent of the royalties with another third going to the permanent fund, per existing statute and the constitution, and the remainder going to the General Fund to pay for public services.

There's been a growing recognition over the past few years that paying a dividend according to the 1982 statute is unsustainable and would require violating the POMV spending cap. HB 202 addresses both of these problems by repealing the current formula and replacing it with one that's simpler, more sustainable, and provides a stable fiscal environment for our state.

[12:07:14 PM](#)

TALLY TEAL, Staff, Representative Kelly Merrick, Alaska State Legislature, on behalf of Representative Merrick, prime sponsor, presented a sectional analysis of HB 202 [included in the committee packet], which read [original punctuation provided]:

Section 1: amends AS 37.13.140(a) to remove language relating to the income available for distribution of the permanent fund dividend.

Section 2: amends AS 37.13.145(c) to make conforming changes due to the repeal of 37.13.145(b) and updates language to conform to the decision in *Wielechowski v. State*.

Section 3: amends AS 37.13.145(d) to make conforming changes due to the repeal of 37.13.145(b) and updates language to conform to the decision in *Wielechowski v. State*.

Section 4: amends AS 37.13.145(e) to reaffirm the prohibition on overdrawing the percent of market value (POMV). This is necessary due to the repeal of 37.13.145(f).

Section 5: amends 43.23.025(a) to make conforming changes as a result of sections 1 and 7.

Section 6: amends AS 43.23.028(a) to make conforming changes as a result of from section 1.

Section 7: adds a new subsection to AS 43.23.045 to designate 30% of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses received by the state during that fiscal year for distribution of dividends.

Section 8: repeals AS 37.13.145(b) and AS 37.13.145(f).

Section 9: provides an effective date of July 1, 2021.

[12:09:57 PM](#)

MS. TEAL directed attention to the HB 202 flow chart [included in the committee packet], explaining that the 30-35 percent of all royalty income going into the Alaska Permanent Fund would remain unchanged by the proposed legislation. She noted that the remaining 60-65 percent currently goes to the General Fund; however, under HB 202, 30 percent would go to dividends and the remainder would be allocated to the General Fund.

[12:11:00 PM](#)

MS. TEAL turned attention to the fiscal model from Legislative Finance Division (LFD) [included in the committee packet], highlighting that HB 202 would not deplete reserves and that the value of the Alaska Permanent Fund would grow over time. She further noted that the value of the Permanent Fund Dividend would be significantly lower than it is under the current formula. Finally, she indicated that the proposed legislation would result in a balanced budget, providing a reasonable, sustainable, and stable solution to the fiscal crisis.

12:12:02 PM

REPRESENTATIVE EASTMAN sought to confirm that under HB 202, the PFD would no longer be tied to investment income.

REPRESENTATIVE MERRICK confirmed.

REPRESENTATIVE EASTMAN asked why the money going to Alaskans would be called a dividend if it had no relation to investment income.

REPRESENTATIVE MERRICK responded that the name could be changed if that would be more appealing. Nonetheless, Alaskans would still be receiving their share of the oil money.

12:13:02 PM

REPRESENTATIVE SCHRAGE said he liked the idea of tying the dividend to oil revenues; however, he found it curious that the permanent fund, as well as a portion of the oil royalties, would go into the General Fund. He asked the bill sponsor to comment on the intent of that structure.

REPRESENTATIVE MERRICK explained that she had considered paying the dividend with the entirety of the remaining 60-65 percent of royalties that currently goes to the General Fund; however, it would require an overdraw of the POMV. She stated that her intention was to propose a solution that would not require an overdraw. She reiterated that under HB 202, the remaining 60-65 percent of royalties would be split 50/50 between the dividend and the General Fund.

REPRESENTATIVE SCHRAGE asked whether this proposal would avoid the necessity of broad-based new revenues.

REPRESENTATIVE MERRICK answered yes, which was one of the key elements when designing this plan. She conveyed that her constituents opposed the implementation of a revenue tax.

REPRESENTATIVE SCHRAGE said he appreciated the rationale of the structure; however, he expressed concern that the proposal is regressive and would affect lower-income families that are already being impacted by the PFD reduction.

[12:15:19 PM](#)

REPRESENTATIVE STORY applauded the concept of a solution that maintains the POMV structure and balances the budget. However, she asked whether the bill would preclude the legislature from appropriating a dividend from the permanent fund instead of natural resource income.

MS. TEAL deferred to Legislative Legal Services. She shared her understanding that because Section 1 of the bill removes the current statutory dividend formula, the legislature might not have the statutory authority to pay a dividend directly from the permanent fund. Nonetheless, she stated her belief that nothing in the bill would preclude the legislature from over appropriating to the dividend and therefore increasing the payout.

[12:17:08 PM](#)

PAULYN SWANSON, Communications Manager, Alaska Permanent Fund Corporation (APFC), confirmed that the proposed legislation would delete the statutory dividend formula as currently written. She shared her understanding that the bill would not preclude an additional appropriation from the POMV to the General Fund or an ad hoc draw from Earnings Reserve Account (ERA) account.

REPRESENTATIVE STORY asked whether the bill sponsor conducted any modeling of the proposed dividend calculation based on the past five years.

[12:19:18 PM](#)

MS. TEAL offered to follow up with the requested information.

[12:19:56 PM](#)

REPRESENTATIVE WOOL said he likes the concept of linking the dividend to the performance of oil, noting that he proposed a similar bill in recent years that combined a percentage of oil with a percentage of the POMV. He believed it would connect the PFD to oil, as opposed to the stock market performance. He asked whether the proposed legislation would impact federal royalties, which are expected to grow.

MS. TEAL said she's not familiar with the nuances of mineral resource development. She noted that federal mineral revenue sharing payments are included the bill.

REPRESENTATIVE WOOL asked Ms. Nauman whether the bill would impact the structure of federal royalties.

[12:22:07 PM](#)

EMILY NAUMAN, Deputy Director, Legislative Legal Services, Juneau, Alaska, replied that the bill would not change underlying statutory structure related to allocation or use of federal royalties. She added that the amount of federal royalties is largely determined in federal law. She recalled that the under HB 202, the money for the dividend would be pulled from the General Fund; therefore, to the extent that all that money is "mixing together," it's possible that some of the money from federal royalties could be used for the dividend due to its inherent fungible nature. However, that is not explicitly specified in the bill.

[12:23:10 PM](#)

REPRESENTATIVE STORY asked whether the bill would prohibit the legislature from offering an individual assistance payment or some other appropriation from the POMV.

MS. NAUMAN said nothing would preclude the legislature from providing a supplemental dividend amount from the General Fund, which would include money that had been deposited into the fund from the POMV draw.

[12:24:11 PM](#)

REPRESENTATIVE SCHRAGE questioned what would happen to the dividend if in the future, royalties started to decline. He wondered whether the dividend would decline to the point of nonexistence.

REPRESENTATIVE MERRICK indicated that the dividend would be nonexistent if there were no royalties.

MS. TEAL added that LFD had modeled a projection into FY 50, which forecasted a "modest" dividend coming from royalties under HB 202.

CHAIR SPOHNHOLZ believed that the likelihood of running out of oil in the next thirty years is low.

[12:25:30 PM](#)

REPRESENTATIVE JOSEPHSON sought to confirm that if oil production were to scale up or prices were to increase significantly, that the formula in HB 202 would track those returns and grow the dividend accordingly.

REPRESENTATIVE MERRICK answered yes.

[12:26:19 PM](#)

CHAIR SPOHNHOLZ expressed concern that a dividend of \$500, as proposed in the bill, is roughly half of the historical average without adjusting for inflation. Further, she highlighted the bill language "may appropriate," as opposed to "shall appropriate," noting that some legislators who feel strongly about the dividend may be concerned about that.

REPRESENTATIVE MERRICK recounted that the permanent fund was originally created for the purpose of paying for state services when oil production declined and to make a nonrenewable resource renewable. She cited AS 43.23, indicating that the purpose of the PFD was to distribute to the people of Alaska a portion of the state's energy wealth derived from the development and production of the natural resources belonging to them as Alaskans. She emphasized that HB 202 would satisfy that by tying the dividend to natural resource income.

[12:28:31 PM](#)

REPRESENTATIVE EASTMAN asked how much of the money from the permanent fund would go towards state government versus other uses if the bill were to pass.

REPRESENTATIVE MERRICK asked whether Representative Eastman was referring to the POMV draw.

REPRESENTATIVE EASTMAN remarked, "any money coming from the permanent fund."

REPRESENTATIVE MERRICK responded that the POMV draw would be available for the legislature to appropriate at their discretion.

CHAIR SPOHNHOLZ pointed out that the legislature has the power of appropriation, as determined by Wielechowski v. Alaska, and could therefore fund a larger PFD if desired.

REPRESENTATIVE EASTMAN asked which sections of the bill address changing the statutory dividend formula.

MS. TEAL stated that Section 1 removes the statutory dividend formula.

REPRESENTATIVE EASTMAN asked how this year's dividend would have been impacted had the bill already been implemented.

REPRESENTATIVE MERRICK clarified that the bill would take effect in July 2021; therefore, it would not affect the 2021 dividend.

REPRESENTATIVE EASTMAN asked how that amount would have changed under HB 202.

REPRESENTATIVE MERRICK said HB 202 would provide a dividend of \$463.

REPRESENTATIVE EASTMAN asked Representative Merrick to contrast that the current statutory amount.

REPRESENTATIVE MERRICK shared her understanding that currently, the statutory dividend would be set at \$3,400.

[12:30:59 PM](#)

REPRESENTATIVE SCHRAGE pointed out that the legislature had not paid out anything close to that in recent years.

REPRESENTATIVE MERRICK confirmed. She explained that the dividend in recent years had been based on ad hoc draw, or in other words, an arbitrary amount as determined by the legislature.

CHAIR SPOHNHOLZ noted that the dividend amount has fluctuated between \$1,000 and \$1,600 in recent years.

REPRESENTATIVE SCHRAGE advocated for implementing honest expectations in regard to the dividend amount, as opposed to ignoring the statutory calculation and setting an arbitrary amount during the budgeting process.

REPRESENTATIVE MERRICK noted that the dividend in HB 202 would be based on expected royalties. She added that the amount would correlate to oil production. She believed it would provide an incentive to develop state resources; further, that the dividend would no longer be competing with state services in terms of funding. She emphasized that the proposed legislation would pay a dividend first and provide a solution for those that say, "follow the law or change the law."

CHAIR SPOHNHOLZ appreciated the effort to redefine the dividend formula. She believed that if the state cannot afford to fund a statutory dividend, the legislature should be honest about that.

[12:33:43 PM](#)

REPRESENTATIVE STORY noted that the dividend would cease to exist if a statutory dividend were to be paid out continually.

CHAIR SPOHNHOLZ announced that HB 202 was held over.

HB 37-INCOME TAX; PERMANENT FUND; EARNINGS RES.

[12:34:18 PM](#)

CHAIR SPOHNHOLZ announced that the final order of business would be HOUSE BILL NO. 37, "An Act relating to deposits into the dividend fund; relating to income of and appropriations from the earnings reserve account; relating to the taxation of income of individuals, partners, shareholders in S corporations, trusts, and estates; relating to a payment against the individual income tax from the permanent fund dividend disbursement; repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act; and providing for an effective date."

[12:34:58 PM](#)

REPRESENTATIVE ADAM WOOL, Alaska State Legislature, prime sponsor, introduced HB 37. He paraphrased the sponsor statement [included in the committee packet], which read in its entirety as follows [original punctuation provided]:

House Bill 37 resolves Alaska's fiscal challenges and balances the budget.

For six years, facing severely declining revenues and massive budget shortfalls, Alaska has managed to delay a permanent fiscal solution through budget cuts and drawing down over \$16 billion in savings. Now, these savings are gone and there is limited room for additional major cuts without substantially harming core state functions.

Alaska is the only state without a broad-based tax on its residents and Alaskans pay the lowest overall state and local taxes in the U.S. Forty-five states have a state sales tax, and forty-three have some form of an income tax. Since 1980 we have been uniquely fortunate, with ample oil and gas revenues able to fund ongoing government operations, endow various savings funds, and build the Permanent Fund so that it can now play a substantial role in our state's revenue.

Since its recent peak in 2012, oil revenue is down 90%. Even with major new projects our revenue forecasts are not encouraging. Current petroleum revenue is as low as it has been since 1978. Nobody wants to implement a tax on Alaskans, but we are out of time and out of options.

As we take this step towards new revenue, it is essential to also resolve the issue of the dividend. For the Alaskan people to trust and accept a new tax, we must ensure that any new revenues are used for essential services and are not used to simply transfer these funds to others through increased PFDs. HB37 does both things.

HB37 adds a flat rate 2.5% income tax based on federal Adjusted Gross Income. There is a "standard deduction" of non-taxable income, of \$10,000 for individuals and \$20,000 for joint filers, which reduces the burden on the lowest income Alaskans. The tax will raise about \$600 million per year, with nonresident workers paying about 10% of the total. The bill also establishes an 80/20 split of the annual "Percent of Market Value" draw from the Permanent Fund, with 20% of each year's funding designated for the PFD. That would provide,

initially, a dividend of about \$1,000 that would steadily grow in years to come. Alaskans, as part of the PFD application process, would be able to assign some or all of their dividend towards the tax.

This would mean, in practice, that most Alaskans would not pay any tax out of pocket. For example, a family of 4 making \$100,000/ year would retain about \$2,000 in PFDs after paying the tax. If the same family made \$200,000 their tax and dividends would balance each other and they would pay nothing.

It is time to have an honest conversation about how Alaska will fund its operations into the future. HB37 can be the key component to get us there. Thank you for your consideration.

[12:38:11 PM](#)

The committee took a brief at-ease.

[12:38:51 PM](#)

REPRESENTATIVE WOOL resumed his introductory statement. He reiterated that the dividend was created to share the wealth of the oil economy; however, he believed its purpose has morphed into fulfilling "other functions," such as providing cash to individuals in cash-strapped economies. He stated that the proposed legislation would establish a dividend that is 20 percent of the POMV draw, equating to approximately \$1,000 per person. He explained that the bill would institute a small flat income tax of 2.5 percent; further, it would allow for a standard deduction of non-taxable income - \$10,000 for individuals and \$20,000 for joint filers, which would reduce the burden on the lowest-income Alaskans. He shared, for example, that if someone only incurred \$10,000, he/she would be exempt and entitled to a full PFD. He noted that as income level increases, more is taken out of the PFD, and the higher earners would have to pay to the State of Alaska. He referenced a chart in the presentation (slide 24), indicating that a single person making \$50,000 would receive a \$960 dividend and owe a tax of \$975, thus owing a total of \$15 [he/she would not receive a dividend, as it would go towards the tax owed]. He continued to explain that a married couple making \$100,000 would receive a dividend of \$1,920 and pay 1,950 in tax, thus owing \$30 to the state. A married couple with two children would receive a

dividend of \$3,840 and pay \$1,900 in tax, thus retaining \$1,940, which essentially equates to two PFD checks.

[12:42:56 PM](#)

KEN ALPER, Staff, Representative Adam Wool, Alaska State Legislature, introduced a PowerPoint presentation, titled "House Bill 37" [hard copy included in the committee packet], on behalf of Representative Wool, prime sponsor. He began on slide 2, explaining that HB 37 consists of two core components, which together, would balance the budget for the foreseeable future. The first key component is an individual income tax of 2.5 percent of federal Adjusted Gross Income (AGI). The first \$10,000 of income (\$20,000 for joint filer) would be exempted from the tax. The PFD income would also be tax exempt. The second component is a restructuring of the annual POMV draw from the permanent fund, so that 20 percent of the draw would be designated to pay PFDs. He continued to slide 3, which recapped process of events that lead up to the present scenario. Slide 3 read as follows [original punctuation provided]:

- Revenue declines, beginning in 2014
- Budget cuts
- Introduction of POMV as a central revenue feature
- Ongoing structural deficits
- Lack of resolution of the Dividend question
- Alaskans pay the lowest state and local taxes among the 50 states

Once a consensus is reached that we need additional revenue, new questions emerge:

- Pros and Cons of Income Tax vs. Sales Tax vs. Other
- How much revenue to raise / how large should the dividend be?
- Structural technical details of the bill

[12:45:40 PM](#)

MR. ALPER turned to slide 4, which featured a model of UGF spending and revenue since statehood in nominal dollars. Slide 5 displayed the same model per capita and adjusted for inflation. The graph indicated that the current budget has decreased to approximately 1970's levels, which was before the oil boom. Slide 5 provided a focused look at the last 10 years, showing the dramatic drop in revenue that coincided with the

crash in oil prices, which was partially compensated by POMV draws. He noted that agency spending has maintained flat while statewide spending is down dramatically with the reduction in payments to the pension system. The capital budget has dropped by over 90 percent and the dividend has fluctuated.

[12:48:41 PM](#)

MR. ALPER advanced to slide 7, emphasizing that permanent fund earnings would make up to roughly two-thirds of Unrestricted General Fund (UGF) revenue in the foreseeable future. Slide 8 indicated that even with higher oil revenue in the spring forecast, the governor's 10-year plan shows large ongoing shortfalls of approximately \$300-400 million. Slide 9 highlighted the three main assumptions in the 10-year plan that, if not met, would impact these future-year shortfalls: oil prices steadily increasing towards \$71/bbl in 2030; three more years of likely unobtainable operating budget cuts and ongoing minimal capital budgets; the governor's proposed change to a 50/50 POMV split beginning in FY 23, yielding dividends of around \$2,400.

[12:50:57 PM](#)

MR. ALPER continued to slide 10, which illustrated that Alaska's current revenue structure hasn't kept pace with its changing economy. He opined that some form of broad-based tax would be the most efficient way to fund the state based on its growing economy. Slide 11 provided a model from LFD that showed a lack of new revenue depleting the ERA by FY 29. Slide 12 weighed the pros and cons of a sales tax versus an income tax, indicating that a sales tax tends to disproportionately impact lower income households, while the effective tax rates are much higher at the top 20 percent of income rates for an income tax. Slide 13 relayed that the great majority (81.5 percent) pay less with an income tax versus a sales tax. He noted that only those making more than \$100,000 would pay more under an income tax versus a sales tax.

[12:57:04 PM](#)

MR. ALPER turned to slide 14, which listed several reasons an income tax might be preferable in Alaska. Slide 14 read as follows [original punctuation provided]:

- A sales tax tends to be regressive; as incomes increase people use more of their earnings for

savings, investment and out-of-state travel. A flat rate tax on income might be a better counterbalance to dividend cuts which has the most impact on low-income Alaskans and children.

- Sales taxes are relied on by ~105 municipalities each with different rules. Adding a state tax introduces a lot of questions: Does the state take over statewide collection? Do we force caps on local rates, unified, exemption rules, transaction caps, etc.
- Regional price disparities, which are a relatively unique Alaska phenomenon, would disproportionately hurt rural residents.
- Our history with sales tax legislation included aggressive exemption seeking by various interest groups.

[12:57:38 PM](#)

CHAIR SPOHNHOLZ announced that HB 37 was held over.

[12:58:28 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 12:58 p.m.