

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS
Anchorage, Alaska
October 22, 2021
10:04 a.m.

MEMBERS PRESENT

Representative Ivy Spohnholz, Chair
Representative Andy Josephson
Representative Andi Story (via Microsoft Teams)
Representative Mike Prax (via Microsoft Teams)

MEMBERS ABSENT

Representative Adam Wool
Representative Calvin Schrage
Representative David Eastman

OTHER LEGISLATORS PRESENT

Representative Dan Ortiz

COMMITTEE CALENDAR

HOUSE BILL NO. 4008

"An Act relating to use of income of the Alaska permanent fund; relating to the amount of the permanent fund dividend; relating to the duties of the commissioner of revenue; and providing for an effective date."

- HEARD & HELD

PRESENTATION: PERMANENT FUND FORMULA CHANGES; PERCENT OF MARKET VALUE

- HEARD

HOUSE BILL NO. 4010

"An Act relating to use of income of the Alaska permanent fund; relating to the amount of the permanent fund dividend; relating to the duties of the commissioner of revenue; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 4008

SHORT TITLE: PFD: 50/50 POMV SPLIT

SPONSOR(S): REPRESENTATIVE(S) SNYDER

10/12/21	(H)	READ THE FIRST TIME - REFERRALS
10/12/21	(H)	W&M, FIN
10/13/21	(H)	W&M AT 10:00 AM ANCH LIO DENALI Rm
10/13/21	(H)	<Bill Hearing Canceled>
10/22/21	(H)	W&M AT 10:00 AM ANCH LIO DENALI Rm

BILL: HB 4010

SHORT TITLE: PERMANENT FUND DIVIDEND; POMV SPLIT

SPONSOR(S): REPRESENTATIVE(S) MCCARTY

10/12/21	(H)	READ THE FIRST TIME - REFERRALS
10/12/21	(H)	W&M, FIN
10/13/21	(H)	W&M AT 10:00 AM ANCH LIO DENALI Rm
10/13/21	(H)	Heard & Held
10/13/21	(H)	MINUTE (W&M)
10/22/21	(H)	W&M AT 10:00 AM ANCH LIO DENALI Rm

WITNESS REGISTER

REPRESENTATIVE LIZ SNYDER
Alaska State Legislature
Anchorage, Alaska

POSITION STATEMENT: As the prime sponsor, presented HB 4008.

ALLIANA SALANGUIT, Staff
Representative Liz Snyder
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented a sectional analysis of HB 4008, on behalf of Representative Snyder, prime sponsor.

ALEXEI PAINTER, Director
Legislative Finance Division
Juneau, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation, titled "Updates on PFD and POMV Legislation."

REPRESENTATIVE KEN MCCARTY
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Asked questions during the presentation from the Legislative Finance Division; Presented a PowerPoint as prime sponsor of HB 4010.

EMILY NAUMAN, Deputy Director
Legislative Legal Services
Legislative Affairs Agency
Juneau, Alaska

POSITION STATEMENT: Provided clarification regarding HB 4010.

CONOR BELL, Fiscal Analyst
Legislative Finance Division
Juneau, Alaska

POSITION STATEMENT: Provided comparisons of the division's information with that of the bill sponsor of HB 4010.

ACTION NARRATIVE

[10:04:08 AM](#)

CHAIR IVY SPOHNHOLZ called the House Special Committee on Ways and Means meeting to order at 10:04 a.m. Representatives Prax (via Microsoft Teams), Story (via Microsoft Teams), Josephson, and Spohnholz were present at the call to order. Representative Dan Ortiz was also present during the meeting.

HB 4008-PFD: 50/50 POMV SPLIT

[10:06:00 AM](#)

CHAIR SPOHNHOLZ announced that the first order of business would be HOUSE BILL NO. 4008, "An Act relating to use of income of the Alaska permanent fund; relating to the amount of the permanent fund dividend; relating to the duties of the commissioner of revenue; and providing for an effective date."

[10:06:27 AM](#)

REPRESENTATIVE LIZ SNYDER, Alaska State Legislature, as prime sponsor, presented HB 4008. She said the proposed legislation offers guidance regarding expenditures of earnings from the Alaska permanent fund. She named two goals: to overcome legislative gridlock and bring the state a comprehensive fiscal plan to benefit the state. She said the bill would: retain a 5 percent, percent of market value (POMV) draw; repeal conflicting statute; and add a revised permanent fund dividend (PFD) formula, called a 50/50 contingency plan. She said HB 4008 was

designed to balance essential government services with growing the permanent fund and PFD. She advised that the strength of the 50/50 plan is that it can mitigate the impact of budget fluctuations on the PFD by using a five-year moving average in calculating the baseline budget. She said this would reduce the capacity for using the PFD as political leverage and provide budgetary stability. The bill would establish a spending cap and would encourage the seeking out of additional revenue.

[10:09:01 AM](#)

ALLIANA SALANGUIT, Staff, Representative Liz Snyder, Alaska State Legislature, on behalf of Representative Snyder, prime sponsor, provided a sectional analysis of HB 4008 [hard copy included in the committee packet].

[10:11:09 AM](#)

REPRESENTATIVE SNYDER gave a PowerPoint presentation, [hard copy included in the committee packet]. She listed the considerations of HB 4008 [slide 2]: the 50/50 split; sustainable, reliable, and high-quality government services; constitutional obligations; the need to remedy conflicting statutory language; the need for fiscal plan; the need for flexibility in challenging budgetary climates; household and economic benefits of direct payments; and recommendations from the fiscal [policy] working group. Representative Snyder acknowledged that while she does not subscribe to some of the rationale behind the 50/50 split, she understands it as a compromise to existing statute. She named the components of HB 4008 [slide 3] as comprising: a 5 percent POMV draw; guidance on the distribution of the POMV draw between general fund and dividend fund; and conforming language. Representative Snyder drew attention to an illustration [slide 4] showing how the POMV can be adjusted to fill a budgetary gap in years when the 50/50 split does not flat fund the previous year's budget.

[10:15:25 AM](#)

REPRESENTATIVE SNYDER brought up two scenarios. In Scenario 1 [slide 5], HB 4008 would be adopted, and there would be no new revenue or cuts, and there would be a flat fund. She covered the categories: appropriations less revenue; 5-year moving average adjusted for the consumer price index (CPI) and inflation, a baseline budget; the POMV of 50 percent, with baseline budget less 50 percent POMV, and showing amount left for PFD; and the dividend payout and percent of POMV for the

PFD. The scenario shows these items from fiscal year 2023 (FY 23) through FY 30. She gave as example that under this scenario, the dividend payout in FY 23 would be \$838, and the percent of POMV for the PFD would be 19 percent. By FY 30 there would be a 30/70 split.

[10:18:18 AM](#)

CHAIR SPOHNHOLZ clarified for the record that "appropriations less revenue" is a flat budget minus known revenue that would be used in projections by the Legislative Finance Division. She added, "It's what we need to raise."

REPRESENTATIVE SNYDER confirmed that is correct. She then moved on to Scenario 2 [slide 6], which would include adoption of HB 4008 and \$7 million in new revenue, as well as continue flat funding. What would change over time is the size of the PFD and the proportion needed to cover "less revenue." Under this scenario, the trajectory of the evolution of the PFD percentage would be accelerated to approximately 50 percent by FY 30.

REPRESENTATIVE SNYDER noted that HB 4008 would allow for increasing or decreasing the budget. She summarized the moderating effects. In decreasing the budget, it would not result in a decreased PFD in the same year; it would contribute to a reduction in the five-year average and to an increased PFD in subsequent years. Nothing in the proposed legislation would preclude the legislature from increasing the state's budget in future years, she said. An increase would increase the five-year average use in subsequent years, in effect increasing the budget and "increasing the proportion that we need to make sure that we cover utilizing the POMV draw."

[10:21:58 AM](#)

REPRESENTATIVE STORY expressed concern that there were no interventions proposed in the bill. She said she believed investments in the future were necessary and that the proposed legislation did not account for that.

REPRESENTATIVE SNYDER answered that the bill was focused on the PFD formula, but reiterated that nothing in the bill would limit the legislature from expanding the budget to meet new needs.

REPRESENTATIVE STORY expressed concern that past experience was not being considered. She said appropriations have been made in the past that were vetoed.

[10:26:12 AM](#)

CHAIR SPOHNHOLZ said the truth is that the budget had been cut for the past seven years, and initiatives with wide bipartisan support cannot be funded without the revenue to do so. She emphasized the importance of grounding these bills in a broader context.

[10:27:11 AM](#)

REPRESENTATIVE SNYDER highlighted the flexibility which HB 4008 would allow. She said the bill did not prescribe a specific percentage split. She argued that the flexibility would allow for the legislature to address unexpected needs.

[10:28:47 AM](#)

REPRESENTATIVE PRAX asked for confirmation that future legislators could not be held to the provisions of HB 4008.

REPRESENTATIVE SNYDER answered that is correct; regardless of what is in statute, the legislature has the ability to make the decision on an appropriation, as decided under Wielechowski v. State of Alaska. Notwithstanding that, she said a common refrain from critics is to "follow the law." Many of the bills proposing statutory change and meant to provide guidance are valuable, particularly in removing current conflicting language.

REPRESENTATIVE PRAX thanked the bill sponsor for being forthright.

REPRESENTATIVE SNYDER replied that HB 4008 proscribes a 50/50 split as a target, which she called unique.

CHAIR SPOHNHOLZ said the legislature had been appropriating a dividend without regard to historic formula, and HB 4008 would develop a new formula based on balancing the budget. She argued that while it is not a hard stop formula, it is a change to the way things are currently done.

[10:31:40 AM](#)

REPRESENTATIVE PRAX said the bill would at least clarify that what the legislature does is pay for all state spending and then fund the PFD with whatever is left; however, he said he thinks

[Alaskans] would be disappointed. He said, "I think we'd be better off ignoring it and moving on."

[10:32:58 AM](#)

REPRESENTATIVE STORY argued that since many items funded by the legislature have been vetoed by the governor, the PFD is not funded by with leftover funds.

[10:33:53 AM](#)

CHAIR SPOHNHOLZ announced that HB 4008 was held over.

PRESENTATION: Permanent Fund Formula Changes; Percent of Market Value

[10:34:04 AM](#)

CHAIR SPOHNHOLZ announced that the next order of business would be a presentation on Permanent Fund Formula Changes; Percent of Market Value.

CHAIR SPOHNHOLZ explained that Alexei Painter would offer an analysis of all the dividend formulas. She underscored that the state's budget is small, and education funds have been left unfunded. She said Mr. Painter's presentation is an update to one he gave on 9/1/21; it would incorporate newer legislation that has been introduced.

[10:36:07 AM](#)

ALEXEI PAINTER, Director, Legislative Finance Division, provided a PowerPoint presentation, titled "Updates on PFD and POMV Legislation," dated 10/22/21 [hard copy included in the committee packet]. He began on slide 2, which gives a disclaimer: "Scenarios and adjustments in this presentation reflect individual pieces of legislation. Sponsors may intend these bills to be part of a larger package of changes." He covered slides 3 and 4, which read as follows [original punctuation provided]:

Review of Modeling Baselines

- Legislative Finance's fiscal model is designed to show policy makers the longer-term impact of fiscal policy decisions.
- The baseline assumptions are essentially that current budget levels are maintained, adjusted for

inflation. Policy changes are then applied against that baseline.

- Our default is to assume that statutory formulas will be followed.

Revenue Assumptions

- LFD's baseline revenue assumptions are the Department of Revenue's Spring Revenue Forecast.
 - This assumes \$61 oil in FY22, growing with inflation in future years.
 - DNR oil production forecast projects that Alaska North Slope production will increase from 459.7 thousand barrels per day in FY22 to 565.5 thousand barrels per day in FY30.
- For the Permanent Fund, we assume actual FY21 returns and Callan's return assumption, which is 5.86% for FY22 and 6.20% for FY23 and beyond.

[10:38:12 AM](#)

MR. PAINTER, in response to Chair Spohnholz, said an updated fall revenue forecast is typically received by the division one week before the governor's budget release on 12/15/21. He continued to slide 5, which read as follows [original punctuation provided]:

Note on Oil Prices

- We are using DOR's spring forecast price of \$61 oil in FY22, growing with inflation in future years. The FY23 forecast price is \$62.
- [Alaska North Slope] ANS price has averaged about \$75 since July 1, 2021. As of October 20, the ANS price was \$86.78.
- Brent futures are showing \$80 for June 2022 and an average price of \$76 for FY23, based on an expectation of declining prices through the fiscal year. Based on this price, FY23 revenue would be about \$500 million above the Spring forecast.
- DOR's fall forecast will be released in December in advance of the Governor's budget.

[10:40:56 AM](#)

CHAIR SPOHNHOLZ said she appreciated the comments regarding the volatility of oil prices.

MR. PAINTER continued to slide 6, which read as follows [original punctuation provided]:

Review of Modeling Baselines (cont.) Spending Assumptions

- For agency operations, these scenarios assume the FY22 enacted budget (including HB 3003) grows with inflation (2.0% per Callan).
- For statewide items, the baseline assumes that all items are funded to their statutory levels beyond FY22.

- This includes School Debt Reimbursement, the REAA Fund, Community Assistance, and oil and gas tax credits. We assume oil and gas tax credits are statutorily funded beginning FY23 until the credit balance is eliminated.

- For retirement funding, we are using the amounts adopted in the October ARM Board meeting. This includes a reduction of \$55 million in FY23 due to the ARM Board's adoption of a zero rate for the normal contribution to healthcare in FY23. We assume the normal rate is contributed beginning FY24, as the Board indicated this zero rate may be temporary.

- We also include a baseline Fund Transfers amount that represents the ongoing cost of DEC's Spill Prevention and Response program.

- For the capital budget, we assume the enacted FY22 capital budget, growing with inflation.
- For supplementals, we assume \$50.0 million per year. This is based on the average amount of supplemental appropriations minus lapsing funds each year.
- For dividends, we assume the current FY22 actual PFD of \$739.0 million. We use the PFD calculation from proposed bills beginning FY23.

[10:45:17 AM](#)

REPRESENTATIVE JOSEPHSON pointed out that cost of healthcare made a continuation of Tier III [retirement benefits] prohibitive. He asked why the Alaska Retirement Management Board (ARMB or "ARM Board") concluded that fiscal year 2023 (FY 23) would not need appropriation for retiree healthcare.

MR. PAINTER explained that in 2014, there was an overhaul of retirement payments, which implemented measures that resulted in an actuarial expectation that "the healthcare side" is overfunded and "the pension side" is underfunded. A service

rate that reflects that funding, with no new contributions "going in," which results in savings to the state as payer and employer.

[10:48:32 AM](#)

REPRESENTATIVE PRAX asked for confirmation of his understanding that the actuarial projections assume that current contribution rates will be maintained into the future.

MR. PAINTER confirmed that is correct. He said, "They could keep this up for quite a while without causing a shortfall in the net fund." In response to a follow-up question, he said the legislature would need to pass legislation to pass on the savings from the state to employees paying into the retirement fund.

[10:51:19 AM](#)

CHAIR SPOHNHOLZ returned attention to comparison of bills.

[10:52:38 AM](#)

MR. PAINTER, in response to Representative Story, offered his understanding that the governor's plan is the only one that would make a change to the power cost equalization (PCE) statute. He then turned attention to slide 7, which read as follows [original punctuation provided, with one spelling correction]:

PFD and POMV Bills In the 32nd Legislature
Constitutional Amendments

- HJR 1 (Rep. Kreiss-Tomkins)
- HJR 7 (Governor Dunleavy)
- HJR 10 (Rep. Tuck)
- SJR 1 (Sen. Wielechowski)
- SJR 18 (Sen. von Imhof) Statutory Changes
- HB 37 (Rep. Wool)
- HB 73 (Governor Dunleavy)
- HB 202 (Rep. Merrick)
- HB 3002 (Rep. Eastman)
- HB 3008 (House Ways and Means)
- HB 4008 (Rep. Snyder)
- HB 4009 (Rep. Hopkins)
- HB 4010 (Rep. McCarty)
- SB 53 (Senate Finance Committee Substitute)

MR. PAINTER offered details regarding HJR 1, as show on slide 8, which read as follows [original punctuation provided]:

HJR 1 (Rep. Kreiss-Tomkins)

- Constitutional amendment combining Permanent Fund principal and earnings reserve into a single account
- Establishes limit of draws from Permanent Fund of 5% POMV
- Does not deal with PFD

MR. PAINTER continued to slide 9, which read as follows [original punctuation provided]:

HJR 7/HB 73 (Governor)

- HJR 7 is a constitutional amendment combining Permanent Fund principal and earnings reserve into a single account
- HJR 7 establishes limit of draws from Permanent Fund of 5% POMV
- As originally drafted, required that a PFD be paid according to a statute that was approved by the voters (as provided in HB 73)
- Governor revised his proposal, which was introduced as a CS to SJR 6 (the Senate companion). This version provides:
 - Constitutional single Permanent Fund account
 - Limits draws to 5% POMV
 - Sets PFD as 50% of the POMV draw
 - Transfers the PCE fund to the Permanent Fund and adds PCE program as constitutional requirement

[10:55:35 AM](#)

MR. PAINTER covered slide 10, which he described as a model showing that: there is an overdraw needed to pay the dividend in FY 23; beyond that it would be a constitutionalized POMV; the FY 23 deficit of \$1.1 billion, based on \$76 dollar oil, would be approximately \$600 million; the deficit figures with the baseline assumption decline to approximately \$300 million by FY 30, depending on oil prices; and this model is similar to the one seen in early September.

[10:56:25 AM](#)

MR. PAINTER turned to slide 11, which read as follows [original punctuation provided]:

HJR 10 (Rep. Tuck)

- Constitutional amendment retaining two-account structure
- Draws limited to 4% of market value of the fund (no averaging) but may not exceed net income from the fund in the previous fiscal year
- Splits draw 50/50 between PFD and general fund

MR. PAINTER addressed slide 12, which he described as similar to the governor's model but with lower numbers because of a 4 percent on average draw. He said it is a constitutional amendment; beyond FY 23 there are no unclaimed draws ERA to meet the deficit, which is \$1.1 billion in FY 23. He added that with those higher oil prices that would be reduced.

[10:57:24 AM](#)

MR. PAINTER, in response to a question from Representative Josephson regarding the governor's plan on slide 10, explained that the governor's full plan, not reflected on the slide, includes spending reductions; therefore spending would be reduced by \$100 million "in each of FY 23 and 24." He offered further details and then said that in total, there is about \$500 million a year less spending in the governor's fiscal plan than in the Legislative Finance Division's baseline. He remarked upon a balance wherein higher oil prices may negate the need for new revenue cuts.

MR. PAINTER, in response to Chair Spohnholz, said the governor, in his 10-year plan, has not introduced specific legislation that would, for example, reduce the state share for school debt reimbursement; however, he has indicated that the long-term plan would fund that 50 percent at the statutory level.

CHAIR SPOHNHOLZ remarked that a plan is incomplete without the legislation to make it possible.

[11:00:39 AM](#)

MR. PAINTER directed attention to slide 13, which read as follows [original punctuation provided]:

SJR 1 (Sen. Wielechowski)

- Constitutional amendment combining Permanent Fund principal and earnings reserve into a single account
- Establishes limit of draws from Permanent Fund of 5% POMV

- Sets PFD as higher of: (1) current statutory formula; or (2) 50% of the POMV draw

MR. PAINTER showed the model for SJR 1, on slide 14, which shows a dividend larger than on the governor's plan because of the statutory dividend calculation based on income rather than a POMV draw. That ends up with larger deficits, about \$2.2 billion in FY 23 and down to about \$900 million in FY 30.

MR. PAINTER presented slide 15, which read as follows [original punctuation provided]:

SJR 18 (Sen. von Imhof)

- Constitutional amendment splitting Permanent Fund into two accounts: Permanent Fund and Alaska Resource Ownership Revenue Account (ARORA)
- ARORA established with a transfer equal to the PFDs paid below the statutory level (about \$6.77 billion)
- Royalties currently directed to the Permanent Fund will be split equally between the Permanent Fund and ARORA
- 5% POMV from each fund. Permanent Fund POMV goes to the general fund, ARORA to the PFD fund

MR. PAINTER pointed out that the model for SJR 18, on slide 16, shows that the 5 percent POMV would be more than sufficient to pay for the budget, based on spending projections and revenue forecast.

[11:02:48 AM](#)

MR. PAINTER, in response to Representative Josephson, said the \$6.77 billion is a combination of an historical number and a guess to the future as to "how we might short the dividend this year and then next year." He explained that if the dividend ends up being lower than what it was presumed when drafted, then "that number" could be different from the \$6.77 billion. In response to a follow-up question, he confirmed that the number is derived from monies that were not paid to the formula.

[11:04:35 AM](#)

MR. PAINTER, in response to Chair Spohnholz, said he did not know what the FY 30 dividend would be under ARORA, but moments later announced his source let him know it would be \$530.

[11:06:33 AM](#)

MR. PAINTER continued to slide 17, which read as follows [original punctuation provided]:

HB 37 (Rep. Wool)

- Retains statutory 5% POMV
- Directs 10% of POMV and 30% of total royalties to the PFD
- Repeals additional statutory 25% of royalties to the Permanent Fund
- Repeals Amerada Hess account (funding source for Alaska Capital Income Fund)
- Establishes a flat income tax of 2.5% - Estimated to raise \$580 Million in FY23

MR. PAINTER said slide 18 showed the model for HB 37, reflecting a surplus of about \$520 million in FY 23, although he remarked that that is an unrealistic time by which to establish an income tax.

[11:08:06 AM](#)

CHAIR SPOHNHOLZ remarked that HB 37 was one of few proposals that would entirely balance budget.

MR. PAINTER showed slide 19, which read as follows [original punctuation provided]:

HB 202 (Rep. Merrick)

- Retains statutory 5% POMV
- Directs 30% of total royalties to the PFD

MR. PAINTER said the model for HB 202 is on slide 20, which shows the proposed legislation would balance the budget in FY 23 and have surpluses starting at \$193 million and growing. The FY 23 amount would be a larger surplus based on today's prices, said.

[11:08:58 AM](#)

MR. PAINTER directed attention to slide 21, which read as follows [original punctuation provided]:

HB 3002 (Rep. Eastman)

- Repeals statutory POMV draw
- Retains statutory PFD formula

MR. PAINTER said HB 3002 would put things back the way they were prior to passage of Senate Bill 26 [passed in a previous legislature]. He said the effect of HB 3002 is shown on the model on slide 22. He explained the model reflects no ERA draw but would not look much different with the ERA draw.

[11:10:11 AM](#)

CHAIR SPOHNHOLZ noted that HB 3002 would create a \$2.8 billion deficit in FY 23, which would be reduced to approximately \$2.5 billion in FY 30. She presumed that in order to balance the budget, the ERA would have to be overdrawn, which could deplete the value of the ERA. She asked for an estimate of the ERA balance at the end of FY 30 if unstructured overdrafts were used to offset the budget.

MR. PAINTER said he could follow up with that information at a later date.

CHAIR SPOHNHOLZ proffered that her "back of the envelope" calculation shows that would result in at least \$15 billion less in the ERA.

[11:11:40 AM](#)

MR. PAINTER moved on to slide 23, which read as follows [original punctuation provided]:

- HB 3008 (House Ways and Means)
- Retains 5% POMV draw
 - Directs 25% of POMV draw to the PFD

MR. PAINTER noted he had just been advised of the answer regarding slide 22: If it is assumed the deficits came out of the ERA and the statutory dividends were paid, then the ending balance in the ERA at the end of FY 30 would be \$6.6 billion.

CHAIR SPOHNHOLZ said that is much worse than she had estimated.

[11:13:25 AM](#)

REPRESENTATIVE JOSEPHSON supposed that a supporter of the bill would say \$6.6 billion in the ERA has been a previous scenario.

MR. PAINTER answered, "Yes, I mean the ERA has been zero dollars at the end of fiscal years in the past; so, it's happened before."

CHAIR SPOHNHOLZ likened HB 3002 to a time machine going back to how things stood before House Bill 26.

[11:14:24 AM](#)

MR. PAINTER returned to the presentation, to slide 24, which models HB 3008, the 75/25 PFD. It shows deficits in FY 23 of approximately \$300 million. With the \$76 oil, that would be about a \$200 million surplus. It would balance the budget in future years in the spring forecast, then leave a surplus in the future years, starting FY 25.

MR. PAINTER moved on to slide 25, which read as follows [original punctuation provided]:

HB 4008 (Rep. Snyder)

- Retains 5% POMV draw
- Directs 50% of POMV draw to the PFD, reduced by the 5-year average gap between non-POMV UGF revenue and non-PFD UGF spending.

MR. PAINTER said slide 26 models HB 4008, showing a deficit of about \$100 million in FY 23, then surpluses in the following years. He explained that "the lag" and revenue growing faster than inflation result in the surpluses if there are not other measure changes.

[11:17:13 AM](#)

MR. PAINTER, in response to a question from Representative Josephson, said in this model, the surpluses would not necessarily go towards the dividend; the legislature could do with the surpluses as it saw fit; it is not specified under HB 4008.

MR. PAINTER directed attention to slide 27, which read as follows [original punctuation provided]:

HB 4009 (Rep. Hopkins)

- Retains 5% POMV draw
- Stairstep PFDs
 - FY23: 10% POMV and 35% total oil & gas royalties
 - FY24: 15% POMV and 40% total oil & gas royalties

- FY25: 20% POMV and 45% total oil & gas royalties
- FY26+: 25% POMV and 50% total oil & gas royalties

MR. PAINTER said the model on slide 28 shows the deficit in FY 23 of about \$200 million, increasing through FY 26, then decreasing again. He noted that if the higher revenue is applied, some of it would come from oil and gas royalties and go to the dividend, but there would still be enough revenue based on \$76 oil in FY 23 to balance the budget and have surplus.

CHAIR SPOHNHOLZ remarked that moving forward, it could be useful to update projections based on the fall forecast.

[11:20:14 AM](#)

MR. PAINTER showed slide 29, which read as follows [original punctuation provided]:

- HB 4010 (Rep. McCarty)
- Retains 5% POMV draw
 - Directs 35% of POMV draw to the PFD
 - Directs 13% of total POMV draw (20% of the 65% that is not directed to PFDs) to capital projects

MR. PAINTER said the model on slide 30 shows higher capital spending and a deficit in FY 23 of about \$800 million, which shrinks to about \$300 million by FY 30. In response to Chair Spohnholz, he confirmed that if the bill were amended to accommodate the bill sponsor's intent to change from 13 percent of the POMV draw going to capital projects to 20 percent, then that would increase the deficit.

[11:22:12 AM](#)

MR. PAINTER moved on to slide 31, which read as follows [original punctuation provided]:

- SB 53 (SFIN Committee Substitute)
- Retains 5% POMV draw
 - Sets PFD at \$1,100 in FY23, \$1,200 in FY24 and \$1,300 in FY25
 - If the state implements a new revenue measure generating at least \$700M/year, the PFD becomes 50% of the POMV beginning in FY26 - Otherwise, the PFD is \$1,300 in FY26, and growing with inflation thereafter

MR. PAINTER said there are two models for SB 53. The first model, on slide 32, assumes "the trigger" is not met. There would be a \$1,300 PFD starting FY 26; and there would be a deficit in FY 23, then surpluses in future years. The second model, on slide 33, assumes new revenue is implemented right before "the trigger period," starting FY 26; it shows a balanced budget in FY 26, with the PFD and the new revenue, then surpluses in the out years.

MR. PAINTER said that concluded the presentation.

[11:24:18 AM](#)

REPRESENTATIVE JOSEPHSON pointed to information on slide 33 that shows a surplus of \$444 million in FY 30 and asked whether that would lend itself to the governor's argument that "we don't need \$700 million in new revenue."

MR. PAINTER responded that how to treat the later years is a policy call for the legislature. He said he does not take much stock in projections that far out; even the ability to do short-term projections is not that great.

CHAIR SPOHNHOLZ remarked that the surplus of \$444 million has caveats.

REPRESENTATIVE JOSEPHSON, regarding the out years, suggested the same could be said of the Fiscal Policy Working Group's projections.

[11:26:28 AM](#)

REPRESENTATIVE KEN MCCARTY, Alaska State Legislature, addressing slide 33, asked why the budget with the dividend increases so much, because it appears not to be connected to the permanent fund.

MR. PAINTER answered that the increase was due to the trigger mechanism in SB 53; if the new revenue was met, it would significantly increase the amount going towards the dividend.

[11:28:13 AM](#)

CHAIR SPOHNHOLZ stated the importance of the "budget less dividends" number on slide 33, and she said essentially the additional revenue allows the 50/50 formula; however, she said

that "we're talking about ... austerity budgets," with no meaningful increases in areas such as public safety, transportation, and education.

[11:28:58 AM](#)

REPRESENTATIVE JOSEPHSON said the spending assumptions include 2 percent inflation, which is more than the governor's assumptions.

CHAIR SPOHNHOLZ responded that is correct but reemphasized that which it does not include.

REPRESENTATIVE JOSEPHSON speculated that on the spectrum of austerity, "this is sort of in the middle."

CHAIR SPOHNHOLZ respectfully disagreed. She thanked Mr. Painter for the presentation.

HB 4010-PERMANENT FUND DIVIDEND; POMV SPLIT

[11:31:03 AM](#)

CHAIR SPOHNHOLZ announced that the final order of business would be HOUSE BILL NO. 4010, "An Act relating to use of income of the Alaska permanent fund; relating to the amount of the permanent fund dividend; relating to the duties of the commissioner of revenue; and providing for an effective date."

[11:32:02 AM](#)

REPRESENTATIVE KEN MCCARTY, Alaska State Legislature, as prime sponsor of HB 4010, gave a PowerPoint presentation, titled "HB 4010; A New Solution for an Established sustainable tradition" [hard copy included in the committee packet]. As shown on slide 2, he reviewed that the percent of market value (POMV) is a 5 percent draw on the Alaska permanent fund. He directed attention to a slide 3, which shows the following question asked by a committee member at a previous meeting: "Does the HB 4010 plan have a negative impact on the operational budget resulting in reductions to it in order to support the capital budget?" Slide 4 provides the answer in a breakdown of the bill, which he clarified at the request of Chair Spohnholz to be that of the 100 percent coming from the POMV draw: 35 percent goes to the permanent fund dividend (PFD), and 65 percent goes to Alaska government expenses; of the 65 percent, 20 percent goes to capital projects and 45 percent to government operations.

[11:35:55 AM](#)

EMILY NAUMAN, Deputy Director, Legislative Legal Services, Legislative Affairs Agency, at the request of Chair Spohnholz, clarified that as drafted, HB 4010 would allot 35 percent [of the POMV draw] to the PFD and 65 percent to the general fund for general state spending. Of that 65 percent, 20 percent would go to capital projects - in other words, 13 percent of the 100 percent.

REPRESENTATIVE MCCARTY, in response to Chair Spohnholz, confirmed that was his intent.

CHAIR SPOHNHOLZ asked that Representative McCarty resubmit the figures on slide 4 so that there are sub-bulleted items under the 65 percent specifying that 20 percent of the 65 percent would go to capital projects and 80 percent of the 65 percent would go to government operations.

[11:38:58 AM](#)

REPRESENTATIVE MCCARTY noted that slide 5 shows the information from slide 4 in a pie chart. Slide 6 has two graphs, one showing \$60 per barrel in FY 21-27 and project revenue with no liability reduction until 2028 and surplus in 2030. The other graph shows \$70 per barrel in FY 21-24 and reflects a projected slight deficit with significant surplus growth after 2025. Slides 7 and 8 offer a closer look at the plan. Slide 9 addresses appropriations to capital projects and indicates money to support jobs for Alaskans, a boost for the economy, and infrastructure for the present and future. Slide 10 boasts no disadvantages of the "35/65" plan and advantages including a distribution plan that is: dependable & sustainable; equitable for both the people's government and individual Alaskans; beneficial from the standpoint of the PFD and jobs and services from capital projects; and fiscally sustainable without requiring excessive revenue expansion or taxation. Slide 11 reiterates the sustainable future aspect of the plan.

REPRESENTATIVE MCCARTY noted that slide 12 answers "no" to the question of whether HB 4010 would result in reduction to the operational budget in order to support the capital budget. The slide further posits that the proposed legislation would offer "balanced fiscal management with projections of future surplus protection." Slide 13 adds that "recent projected oil revenue

forecasts have seen unexpected surplus, which could reduce or eliminate deficit years."

[11:42:36 AM](#)

CHAIR SPOHNHOLZ pointed out that the bill comparison presentation given by Alexei Painter just prior to this bill hearing used the current oil prices as an even way to compare the various proposed legislation.

[11:43:45 AM](#)

REPRESENTATIVE STORY inquired whether the bill sponsor knew how many millions of dollars would go to capital projects.

REPRESENTATIVE MCCARTY responded that if the model were used this year, it would produce just shy of \$400 million from the permanent fund to capital projects. In 2030, \$800 million would go towards capital projects. In response to a follow-up comment, he agreed that there is a need to build workforce that has been lost. He noted that HB 108 would help with workforce and training.

[11:47:33 AM](#)

REPRESENTATIVE JOSEPHSON noted that Representative McCarty's presentation states there would be no impact on the operating budget; however, slide 30 from Mr. Painter's Legislative Finance Division presentation said there would be an impact on the budget. He said, "Something's got to give."

CHAIR SPOHNHOLZ compared the bill sponsor's analysis of HB 4010, which shows a deficit of \$617 million in FY 23 going down to minus \$69 million in FY 25, and she expressed interest in comparing this to the information from the Legislative Finance Division, for example whether slide 30 reflects only the operating budget and does not include "the additional capital spend."

[11:49:45 AM](#)

CONOR BELL, Fiscal Analyst, Legislative Finance Division, said the division assumed that the capital budget increases and the agency operating budget "stays with the status quo of the enacted budget growing with inflation." He said the division views the cutting or increasing of the operating budget as a response to a larger capital budget as a separate policy choice.

In response to Chair Spohnholz, he confirmed that all the amounts on slide 30 of the division's presentation account for a higher capital budget and resulting overall higher unrestricted general fund (UGF) budget.

[11:52:22 AM](#)

MR. BELL, in response to Representative Josephson, said the numbers improve because revenue is growing faster than inflation "during this forecast period," including both POMV and non-POMV revenue.

CHAIR SPOHNHOLZ reasoned that the FY 23 deficit under HB 4010 is \$200 million higher due to the additional capital spend.

MR. BELL confirmed that's correct.

[11:53:57 AM](#)

CHAIR SPOHNHOLZ thanked the bill sponsor and announced that HB 4010 was held over.

[11:54:41 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 11:54 a.m.