

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

February 24, 2022

11:36 a.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

**COMMITTEE CALENDAR**

HOUSE BILL NO. 259

"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; relating to funding for state aid for school districts, the state boarding school, centralized correspondence study, and transportation of pupils; and providing for an effective date."

- MOVED HB 259 OUT OF COMMITTEE

HOUSE BILL NO. 223

"An Act relating to the curriculum improvement and best practices fund; relating to the fuel emergency fund and fuel emergency grants; relating to the Railbelt energy fund; relating to the Alaska affordable energy fund; relating to the special Alaska Historical Commission receipts account; relating to the rural electrification revolving loan fund and loans from the fund; relating to the Southeast energy fund and grants from the fund; and relating to the Exxon Valdez oil spill unincorporated rural community grant fund and grants from the fund."

- HEARD & HELD

OVERVIEW: INACTIVE FUNDS

- HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 259

SHORT TITLE: PERMANENT FUND DIVIDEND; 25/75 POMV SPLIT

SPONSOR(s): REPRESENTATIVE(s) SPOHNHOLZ

01/18/22 (H) PREFILE RELEASED 1/7/22  
01/18/22 (H) READ THE FIRST TIME - REFERRALS  
01/18/22 (H) EDC, W&M, FIN  
02/04/22 (H) EDC AT 8:00 AM DAVIS 106  
02/04/22 (H) Heard & Held  
02/04/22 (H) MINUTE(EDC)  
02/14/22 (H) EDC RPT 3DP 3DNP 1NR  
02/14/22 (H) DP: HOPKINS, STORY, DRUMMOND  
02/14/22 (H) DNP: PRAX, GILLHAM, CRONK  
02/14/22 (H) NR: ZULKOSKY  
02/14/22 (H) EDC AT 8:00 AM DAVIS 106  
02/14/22 (H) Moved HB 259 Out of Committee  
02/14/22 (H) MINUTE(EDC)  
02/15/22 (H) W&M AT 11:30 AM DAVIS 106  
02/15/22 (H) Heard & Held  
02/15/22 (H) MINUTE(W&M)  
02/17/22 (H) W&M AT 11:30 AM DAVIS 106  
02/17/22 (H) Heard & Held  
02/17/22 (H) MINUTE(W&M)  
02/22/22 (H) W&M AT 11:30 AM DAVIS 106  
02/22/22 (H) -- MEETING CANCELED --  
02/24/22 (H) W&M AT 11:30 AM DAVIS 106

BILL: HB 223

SHORT TITLE: REPEALING FUNDS, ACCOUNTS, AND PROGRAMS

SPONSOR(s): REPRESENTATIVE(s) KAUFMAN

01/18/22 (H) PREFILE RELEASED 1/7/22  
01/18/22 (H) READ THE FIRST TIME - REFERRALS  
01/18/22 (H) W&M, FIN  
02/24/22 (H) W&M AT 11:30 AM DAVIS 106

**WITNESS REGISTER**

ALEXEI PAINTER, Director  
Legislative Finance Division  
Legislative Agencies and Offices  
Juneau, Alaska

**POSITION STATEMENT:** Offered a PowerPoint presentation on inactive funds in the context of HB 223.

MARIE MARX, Attorney  
Legislative Legal Services  
Legislative Affairs Agency  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions during the hearing on HB 223.

REPRESENTATIVE JAMES KAUFMAN  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented HB 223, as the prime sponsor.

#### **ACTION NARRATIVE**

[11:36:47 AM](#)

**CHAIR IVY SPOHNHOLZ** called the House Special Committee on Ways and Means meeting to order at 11:36 a.m. Representatives Josephson, Story, Wool, and Spohnholz were present at the call to order. Representatives Eastman, Schrage, and Prax arrived as the meeting was in progress.

#### **HB 259-PERMANENT FUND DIVIDEND; 25/75 POMV SPLIT**

[11:37:48 AM](#)

CHAIR SPOHNHOLZ announced that the first order of business would be HOUSE BILL NO. 259, "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; relating to funding for state aid for school districts, the state boarding school, centralized correspondence study, and transportation of pupils; and providing for an effective date."

CHAIR SPOHNHOLZ, as prime sponsor, sought final comment on HB 259.

[11:38:09 AM](#)

REPRESENTATIVE JOSEPHSON referred to slide 12 of the PowerPoint presentation, titled "HB 259 Update Permanent Fund Funding for Dividends, Education and other Essential State Services" [hard copy included in the committee packet]. He pointed out that by fiscal year 2026, additional funding beyond the base student allocation (BSA) would amount to \$218 million, which he deemed "too much excess revenue." He suggested that the bill would be

more attractive if the revenue would be targeted formulaically to a defined benefit for teachers, a pre-kindergarten ("pre-K") fund, or an extended school year.

REPRESENTATIVE WOOL echoed the sentiments expressed by Representative Josephson. He expressed his support for fully funding education and increasing BSA, adding that more support for education is needed in his district. He expressed his support for the permanent fund dividend (PFD) formula in the bill, noting that he maintained some reservations about the proposed legislation.

[11:41:58 AM](#)

REPRESENTATIVE STORY saw the bill as prioritizing public education in the state by signaling that the legislature would be serious about economic development and training its workforce. She acknowledged the "umbrella needs" referenced by Representative Josephson and Representative Wool, such as teacher retirement, and welcomed future discussions on the matter. Further, she highlighted the \$26 million in lost revenue due to downward inflationary pressure on schools, noting that she was sponsoring a bill to address that issue.

REPRESENTATIVE EASTMAN expressed his skepticism toward the effectiveness of the proposed legislation. He opined that increased test scores and performance metrics would be the best signal to send to parents, as opposed to more funding. Additionally, he shared his belief that increasing the funding while maintaining the status quo, which he characterized as "terrible" in Alaska, would place downward pressure on performance.

[11:44:59 AM](#)

CHAIR SPOHNHOLZ reminded the committee that the statutory PFD formula would create a \$1.5 billion fiscal gap next year. She opined that Alaskans deserved transparency in regard to the annual dividend amount, adding that the bill would also resolve a political problem for the legislature. She expressed a desire to create fiscal stability for the future of Alaska and agreed that the bill could intersect with other policy proposals seeking to address some of the education challenges in the state. She reported that today, Alaska spends \$500 less per child for public education when adjusted for inflation compared to FY 08. She expounded on several policy proposals before the legislature intended to restructure the BSA. She posited that

Alaska's educational outcomes weren't worsening; instead, other states made strategic investments in education and implemented evidence-based strategies to jump past Alaska in performance metrics. She added that it was her intention to allow local jurisdictions to determine how the additional dollars would be spent; nonetheless, she said she would be happy to amend the proposed legislation in the House Finance Committee. In closing, she reiterated her belief that the state needed to make investments in public education and could not afford an unsustainable dividend formula, hence her introduction of HB 259.

[11:49:21 AM](#)

REPRESENTATIVE WOOL moved to report HB 259 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 259 was reported out of the House Special Committee on Ways and Means.

**HB 223-REPEALING FUNDS, ACCOUNTS, AND PROGRAMS**  
**OVERVIEW: Inactive Funds**

[11:49:54 AM](#)

CHAIR SPOHNHOLZ announced that the final order of business would be HOUSE BILL NO. 223, "An Act relating to the curriculum improvement and best practices fund; relating to the fuel emergency fund and fuel emergency grants; relating to the Railbelt energy fund; relating to the Alaska affordable energy fund; relating to the special Alaska Historical Commission receipts account; relating to the rural electrification revolving loan fund and loans from the fund; relating to the Southeast energy fund and grants from the fund; and relating to the Exxon Valdez oil spill unincorporated rural community grant fund and grants from the fund," and an overview of inactive funds.

[11:50:19 AM](#)

ALEXEI PAINTER, Director, Legislative Finance Division (LFD), Legislative Agencies and Offices, directed attention to a PowerPoint presentation, titled "Inactive Funds and HB 223" [hard copy included in the committee packet]. He provided an outline of the presentation on slide 2, which included an overview of inactive funds; an impact of CBR sweep on fund balances; and the history of funds contained in HB 223. He

proceeded to slide 3, titled "Differentiating Funds and Fund Codes," which read as follows [original punctuation provided]:

- Each fund source spent in the budget has a "fund code" - a four-digit identifier assigned by Legislative Finance that starts with a 1. Fund codes start at 1001 (Constitutional Budget Reserve) and the newest is 1272 (Oil/Hazardous Release Prevention Fund Revenue).
- These fund sources often come from a particular fund within the State treasury (such as 1243, the SBR Fund). However, sometimes they are used to identify revenue sources that are not kept in a fund (such as 1007, Interagency Receipts).
- Each fund within the treasury also has a code. Funds that are spent in the budget have the same budget and accounting codes. Funds that are not spent in the budget typically have four-digit codes starting with a 3.

[11:53:07 AM](#)

MR. PAINTER moved to slide 4, titled "Inactive Funds and Fund Codes," which read as follows [original punctuation provided]:

- Of the 272 fund codes LFD has assigned, 106 are currently marked "inactive." Inactivating a fund code is as easy as clicking a box in our budget system.
- In some cases, inactive funds are repealed by the legislature. For example, code 1090 (Four Dam Pool Transfer Fund) was repealed in 1999.
- Some funds are established in statute and remain even after the underlying program or original purpose no longer exist. Occasionally, these funds retain some balance.
- While the administrative burden associated with most of these funds are low, there may be some efficiencies and some balances to recover if they are repealed.

MR. PAINTER indicated that repealing the inactive funds was a good exercise in cleaning up the statutes, which he understood to be the purpose of HB 223.

[11:55:06 AM](#)

MR. PAINTER advanced to slide 5, titled "Not all Inactive Funds Can Be Repealed," which read as follows [original punctuation provided]:

- Some inactive funds still have ongoing obligations, even though they have not been used in many years.
- For example, no loans have been made from the Mining Revolving Loan Fund (code 1067) since 1986, but the fund retains about \$200,000 for a foreclosure reserve for a single remaining asset in its portfolio.
- Others still have ongoing past capital appropriations that pose a complication for their repeal.

MR. PAINTER noted that the Railbelt Energy Fund was an example of outstanding past capital appropriations included in HB 223. He said the fund had not been used for its intended purpose in over 20 years; however, it could not be easily repealed because of the remaining obligations.

[11:57:06 AM](#)

MR. PAINTER continued to slide 6, titled "Impact of 2021 CBR Sweep," which read as follows [original punctuation provided]:

- Some inactive funds are subject to Article IX, Section 17(d) of the Alaska Constitution, commonly called the CBR sweep.
- These funds cannot be spent by agencies without further appropriation and are subaccounts of the general fund.
- When the CBR sweep was not reversed at the end of FY21, these funds were emptied.
- Non-sweepable inactive funds may still retain balances.

[11:58:20 AM](#)

REPRESENTATIVE WOOL questioned the ramifications of sweeping the Railbelt Energy Fund and asked whether the fund was replenished annually. Further, he inquired about the Originator Surety Fund.

MR. PAINTER stated that a forthcoming slide would address the Railbelt Energy Fund. The Originator Surety Fund had been marked inactive by the Legislative Finance Division (LFD) for

many years, he said, adding that he was unsure of the fund's history.

[11:59:32 AM](#)

MR. PAINTER resumed the presentation on slide 11, which featured a list of inactive funds swept in FY 21 totaling \$4,854,345. He noted that the Railbelt Energy Fund was the largest fund on the list followed by the Municipal Capital Project Matching Grant Program. He explained that these inactive funds could have been used for another purpose or moved to the general fund (GF). Now, however, the balances were no longer available, as the funds had been transferred to the Constitutional Budget Reserve (CBR).

[12:00:36 PM](#)

MR. PAINTER reviewed on slide 8, the inactive funds not subject to the sweep. Several of which, he explained, could be spent without further appropriation or revolving loan funds. The largest fund was the Alaska Capstone Avionics Revolving Loan Fund at \$3,198,691, which had already been repealed by statute. The existing balance was due to outstanding capital projects that remained on the books, he noted. The second largest was the Alaska Housing Finance Corporation - Alaska Capital Fund ("AHCC Account") at \$1,867,832.

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CHAIR SPOHNHOLZ sought to confirm that Mr. Painter had stated that the AHCC Account had not been used in a decade.

Mr. PAINTER confirmed that the fund had not been used for a significant amount of time. The initial capitalization was over 10 years ago and was mostly spent in the first few years.

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REPRESENTATIVE STORY requested background on the Fund for the Improvement of School Performance.

MR. PAINTER replied that the Fund for the Improvement of School Performance had not been used in 20 years. He explained that the fund had no source of revenue, acting as a placeholder for the legislature to put money and spend on a particular purpose. The fund predated the current budget system, hence the lack of a funding code, he noted.

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MR. PAINTER offered background on the list of funds proposed for repeal in HB 223, starting with the Railbelt Energy Fund, code 1012, on slide 10, which read as follows [original punctuation provided]:

- Subject to CBR sweep, so fund balance is currently zero.
- Established in 1986 for the purpose of meeting Railbelt energy needs, including projects for retrofitting state- owned buildings and facilities for energy conservation. \$412.6 million appropriated to the fund across several years, but it has no ongoing source of revenue.
- The full balance of the fund was appropriated in FY2012. As capital projects lapsed back to the fund, it rebuilt a balance until the FY21 CBR sweep.
- As a fund with no ongoing source of revenue, it is essentially an empty endowment.

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MR. PAINTER proceeded to slide 11, titled "Code 1065, Rural Electrification Revolving Loan Fund," which read as follows [original punctuation provided]:

- Established in the Alaska Energy Authority in 1981 with a \$6.5 million capitalization.
- The intent was to make loans available to rural utilities that did not have access to the Rural Electrification Administration (REA) loan programs or that were experiencing difficulty obtaining REA loans because of federal reductions in the REA program.
- This loan program was largely supplanted by the Electrical Service Extension Fund in the 1990s,.
- Payments on outstanding loans continued until FY08 but were typically appropriated for electricity-related capital projects rather than back to the fund for new loans. No outstanding funds or loans remain.

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CHAIR SPOHNHOLZ sought to clarify how the Railbelt Energy Fund could be an empty endowment if there were outstanding projects associated with the fund, as mentioned by Mr. Painter.

MR. PAINTER clarified that the fund was empty because there was no unobligated balance. He acknowledged that there were outstanding capital projects; however, no funds were available for any other purpose. Once the projects are completed, any lapsing balances may be put back into the fund or reappropriated if the dollars were completely expended.

CHAIR SPOHNHOLZ asked what would happen to the expended dollars should the bill pass.

MR. PAINTER said without a reverse sweep vote, the dollars would end up in CBR. With a reverse sweep, the outcome would be ambiguous. He indicated that LFD would recommend including language in the budget to reappropriate the lapsed funds back into the GF.

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MR. PAINTER resumed the presentation on slide 12, titled "Code 1086, Southeast Energy Fund," which read as follows [original punctuation provided]:

- Created from 40% of the Four Dam Pool Fund, which consisted of loan payments from the Alaska Energy Authority.
- In 1999, the legislature redirected these payments to the Power Cost Equalization (PCE) Endowment Fund.
- A single grant was made from these funds in 1996 for the Swan Lake-Tyee intertie. The remaining balance of the fund was appropriated to the general fund in 2006.
- This fund no longer has a source of revenue or a fund balance.

MR PAINTER Moved to slide 13, titled "Code 1260, Curriculum Improvement and Best Practices Fund," which read as follows [original punctuation provided]:

- Created in 2018 through a one-time capitalization to fund a three-year pilot program to test the appropriateness and effectiveness of curricula.
- The fiscal note called for a \$19.5 million capitalization in FY19. On the House floor in the 2018 session, this capitalization was given a delayed effective date to FY20. In 2019, the legislature repealed the capitalization of the fund at the Governor's request.

- The fund was therefore never capitalized and never used.

[12:11:49 PM](#)

CHAIR SPOHNHOLZ presumed that other funds could be appropriated for the purposes of improving curriculums and best practices in education.

MR. PAINTER explained that the Curriculum Improvement and Best Practices Fund was designed for a specific three-year pilot program established via legislation four years ago. If the goal was to support curriculum more generally, this particular fund would not be appropriate, as it ties back to a specific statute related to the pilot program.

[12:12:37 PM](#)

MR. PAINTER proceeded to slide 14, titled "Code 3205, Alaska Historical Commission Receipts Accounts," which read as follows [original punctuation provided]:

- Subject to CBR sweep, so fund balance is currently zero.
- Formerly used to track expenditures of the Alaska Historical Commission within DNR. No longer in use by the Commission.

[12:13:24 PM](#)

MR. PAINTER advanced to slide 15, titled "Code 3206, Fuel Emergency Fund," which read as follows [original punctuation provided]:

- Balance estimated to be \$22,524.
- Used in the 1990s when the governor determined that a shortage of fuel is sufficiently severe to justify state assistance to make grants to a political subdivision to purchase emergency supplies of fuel.
- In 2000, the Disaster Relief Fund statute was amended to add fuel shortages as an allowable use, making this fund unnecessary.

[12:14:26 PM](#)

MR. PAINTER continued to slide 16, titled "Exxon Valdez Oil Spill Unincorporated Rural Community Grant Fund," which read as follows [original punctuation provided]:

- Established in 1992 with the payment of \$29.7 million from Alyeska Pipeline Company to the State of Alaska stemming from the Exxon Valdez Oil Spill.
- These funds are distinct from the criminal fines paid by Exxon, which are maintained for longterm purposes.
- The Unincorporated Rural Community Grant Fund was fully expended and no funds remain to distribute.

MR. PAINTER concluded on slide 17, titled "Alaska Affordable Energy Fund," which read as follows [original punctuation provided]:

- Designated to receive 20% of royalties from an Alaska Liquefied Natural Gas (AKLNG) project for the purpose of developing energy infrastructure for areas that do not have access to the AKLNG line.
- No AKLNG project has yet been constructed, so this fund has never been used.

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CHAIR SPOHNHOLZ sought questions from committee members.

[12:16:27 PM](#)

REPRESENTATIVE JOSEPHSON asked whether the Alaska Liquefied Natural Gas (AKLNG) project came from House Bill 4 or House Bill 138.

MR. PAINTER could not recall which bill established the project.

[12:17:38 PM](#)

CHAIR SPOHNHOLZ invited Marie Marx to provide an overview of a lengthy legal memorandum ("memo") [included in the committee packet] on the subject: "repeal of and amendment to funds."

[12:17:59 PM](#)

MARIE MARX, Attorney, Legislative Legal Services, Legislative Affairs Agency (LAA), explained that HB 223 would repeal eight inactive funds' enabling statutes. Repealing the funds would

not require any other changes to the Statutes. The memo, she said, discusses a legal issue with repealing other state funds and, subsequently, their associated statutes in one bill. The issue raised in the memo highlighted Article II, Section 13, of the Alaska Constitution, which states that every bill must be confined to one subject, also known as the "single subject rule." Failure to comply with the single subject rule could jeopardize the bill if it was ever challenged, she added. In essence, the memo concluded that the bill's inclusion of funds that require changes to other statutes could violate the single subject rule. She strongly recommended that repealing funds which require other changes to the statutes be made in separate bills confined to one single subject.

[12:20:01 PM](#)

REPRESENTATIVE EASTMAN asked whether moving the funds to another location would violate the single subject rule.

MS. MARX explained that a transfer of money would require an appropriation; consequently, any movement of funds would require a corresponding appropriation bill.

REPRESENTATIVE EASTMAN sought to confirm that a transfer of funds would require a separate piece of legislation.

MS. MARX confirmed that the transference of funds would require an appropriation bill. She clarified that HB 223 would repeal the funds, as opposed to transferring the money.

REPRESENTATIVE EASTMAN attempted to clarify the meaning of "transfer." He asked whether the elimination of the [inactive] funds within another fund would be considered a transfer of money.

MS MARX said there was no clear answer to this question. She recommended appropriating any remaining money in an appropriation bill to avoid any legal ambiguity.

[12:23:06 PM](#)

The committee took a brief at-ease at 12:23 p.m.

[12:23:11 PM](#)

REPRESENTATIVE JAMES KAUFMAN, Alaska State Legislature, as prime sponsor of HB 223, stated that the purpose of the bill was to

delete unneeded accounts. He acknowledged the difficulty of repealing certain funds, adding that the list [of inactive funds] may evolve as the bill moved through the committee process.

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CHAIR SPOHNHOLZ inquired about the bill sponsor's process of selecting the eight inactive funds.

REPRESENTATIVE KAUFMAN cited time and inactivity. He relayed that he looked for funds that were sitting dormant, in addition to considering the legal and financial implications.

CHAIR SPOHNHOLZ characterized the proposed legislation as "looking through the couch cushions to try to find the pocket change."

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CHAIR SPOHNHOLZ thanked Representative Kaufman for his thoughtful process in working with Legislative Legal Services and LFD. She announced that HB 223 would be held over.

[12:28:42 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 12:28 p.m.