

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

March 10, 2022

11:37 a.m.

MEMBERS PRESENT

Representative Ivy Spohnholz, Chair
Representative Adam Wool, Vice Chair
Representative Andy Josephson
Representative Andi Story
Representative David Eastman

MEMBERS ABSENT

Representative Calvin Schrage
Representative Mike Prax

COMMITTEE CALENDAR

HOUSE BILL NO. 260

"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

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

PREVIOUS COMMITTEE ACTION

BILL: HB 260

SHORT TITLE: PFD: 50/50 POMV SPLIT

SPONSOR(S): REPRESENTATIVE(S) SNYDER

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
03/10/22 (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
02/24/22 (H) Heard & Held
02/24/22 (H) MINUTE(W&M)
03/01/22 (H) W&M AT 11:30 AM DAVIS 106
03/01/22 (H) Heard & Held
03/01/22 (H) MINUTE(W&M)
03/10/22 (H) W&M AT 11:30 AM DAVIS 106

WITNESS REGISTER

REPRESENTATIVE LIZ SNYDER
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As the prime sponsor introduced HB 260.

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

POSITION STATEMENT: Presented a sectional analysis of HB 260 on behalf of Representative Snyder, prime sponsor.

CONOR BELL, Fiscal Analyst
Legislative Finance Division
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: During the hearing on HB 260, answered questions.

EMILY NAUMAN, Legislative Legal Counsel
Legislative Legal Services
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: During the hearing on HB 260, answered questions.

REPRESENTATIVE JAMES KAUFMAN
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As prime sponsor of HB 223, answered questions about the bill.

CURTIS THAYER, Executive Director
Alaska Energy Authority
Anchorage, Alaska

POSITION STATEMENT: During the hearing on HB 223, provided testimony in support of Amendment 2 to the bill.

ACTION NARRATIVE

[11:37:57 AM](#)

CHAIR IVY SPOHNHOLZ called the House Special Committee on Ways and Means meeting to order at [11:37] a.m. Representatives Josephson, Story, and Spohnholz were present at the call to order. Representatives Eastman and Wool arrived as the meeting was in progress.

HB 260-PFD: 50/50 POMV SPLIT

[11:38:39 AM](#)

CHAIR SPOHNHOLZ announced that the first order of business would be HOUSE BILL NO. 260, "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."

[11:39:06 AM](#)

REPRESENTATIVE LIZ SNYDER, Alaska State Legislature, prime sponsor, introduced HB 260. She said the bill should look familiar because the committee first heard the bill as HB 4008 during a special session. She stated that HB 260 addresses the permanent fund dividend (PFD) formula.

[11:40:03 AM](#)

ALLIANA SALANGUIT, Staff, Representative Liz Snyder, Alaska State Legislature, on behalf of Representative Snyder, prime sponsor, presented a sectional analysis of HB 260 [included in the committee packet and titled "SECTIONAL ANALYSIS HB 260: PFD:

50/50 POMV SPLIT"]. She explained Section 1 would amend AS 37.13.140-Income by removing the original statutory formula so there is no longer any conflicting language. She said no changes would be made to the percent of market value (POMV) rate, but language would be added stating that the amount available for appropriation cannot exceed the balance in the earnings reserve account.

MS. SALANGUIT explained Section 2 would amend AS 37.13.145(b)-Disposition of Income by providing the new appropriation guidelines for the permanent fund dividend (PFD) and POMV draw. She explained that if state revenue outside of the POMV and 50 percent of the POMV can flat fund the calculated baseline budget, then the other 50 percent of the POMV draw would go towards the PFD. The baseline budget would be calculated using a five-year trailing average that is cumulatively adjusted for inflation and population changes, she said. For example, the fiscal year 2023 (FY 23) budget baseline calculation would incorporate the budgets for FY 17 and FY 21; conversely, if changes occur in FY 24, then those changes wouldn't show up until FY 26. She stated that the average annual appropriation that would be used in this calculation is defined as the operating, capital, and mental health budget minus appropriations for the PFD, the appropriations for inflation proofing of the permanent fund, and other state revenues such as taxes, grants, leases, loans, and federal funds.

MS. SALANGUIT explained Sections 3, 4, and 5 would add conforming language. She said Section 6 would direct the Alaska Permanent Fund Corporation (APFC) to annually compute the net income of the fund [on the last day of] each fiscal year. She related that Section 7 would add conforming language to the amount of the dividend [AS 43.23.025(a)]. She advised that Section 8 would add repealers for AS 37.13.145-Disposition of Income because those provisions would now be in Section 1. She stated that Section 9 would add an effective date of 7/1/22.

[11:42:09 AM](#)

REPRESENTATIVE SNYDER provided a PowerPoint presentation titled "HB 260" [hard copy included in the committee packet]. She said HB 260 is the result of several months of speaking to various legislators, members of the legislature's Fiscal [Policy] Working Group, and her own constituents, so she received very diverse viewpoints and priorities to consider while drafting the bill. She spoke to the second slide, "Considerations

Incorporated into HB 260," which read as follows [original punctuation provided]:

- 50/50 split
- Sustainable, reliable, and high-quality government services
- Constitutional obligations
- Need to remedy conflicting statutory language
- Need for fiscal plan
- Need for flexibility in challenging budgetary climates
- Household and economic benefits of direct payments

- Fiscal [Policy] Working Group recommendations

timestamp

REPRESENTATIVE SNYDER drew attention to the four-page report distributed to members during the committee meeting titled "FISCAL POLICY WORKING GROUP FINAL REPORT 32nd ALASKA LEGISLATURE." She said many of the considerations on the second slide were identified in the report as necessary parts of a comprehensive fiscal solution [bullet points on page 3]. She said HB 260 would be conducive to achieving the following bullet points listed on page 3:

- Constitutional, single-account Permanent Fund structure with draws limited by POMV
- Constitutional certainty for the Permanent Fund Dividend (PFD)
- Healthy capital budget
- New revenues
- Budget reductions
- Spending cap reform
- Constitutional Budget Reserve reform
- Process: a comprehensive solution must be negotiated and agreed to as whole, not be taken up one part at a time

REPRESENTATIVE SNYDER, regarding the bullet point, "Spending cap reform," added that the bill would inch toward a spending cap by use of its five-year rolling average calculation of the baseline budget, which is the starting point for a baseline budget and can be viewed as guidance similar to what a spending cap could achieve.

REPRESENTATIVE SNYDER stated that HB 260 would deliver on the following bullet points listed on page 3:

- New POMV-based PFD formula
- Several-year 'transition period' with one-time fiscal measures

REPRESENTATIVE SNYDER stated that the bullet point, "Resilience to fiscal stress," is a key driver of HB 260 and would allow a thoughtful response in times of fiscal stress.

REPRESENTATIVE SNYDER, regarding the bullet point, "Process: at all times, keep in mind what can realistically pass the legislature," maintained that of the suite of options before the legislature, HB 260 may be the most likely to draw support across the aisle.

[11:48:54 AM](#)

REPRESENTATIVE SNYDER continued to the third slide, "Components of HB [260]." She said the bill would maintain the current language regarding the 5 percent POMV draw, eliminating the conflicting language; provide guidance on the distribution of the POMV draw between the general fund and the dividend fund; and provide conforming language.

[11:49:41 AM](#)

REPRESENTATIVE SNYDER turned to the diagram on the fourth slide illustrating the mechanics of HB 260. She explained that the legislature directs earnings from the permanent fund to PFDs and a portion of state services, and that revenues support the remaining portion of state services. She said the bill would pull a 5 percent POMV, that 5 percent POMV draw would be added to revenues, and this would be the start of calculating how that money will be spent and how it will be distributed between government services and the PFD calculation. She specified that under HB 260, if 50 percent of the POMV draw plus revenue flat funds the previous year's budget, which is calculated as a five-year average, then 50 percent would go to the PFD and 50 percent would be directed towards government services. However, she continued, if 50 percent of the POMV [plus revenue] does not flat fund the previous year's budget, then under HB 260 the legislature would be directed to pull whatever percentage is necessary from the other 50 percent that could go to PFDs to flat fund the budget; in other words, the POMV split is adjusted to fill the gap. Representative Snyder pointed out that in both

cases, the bill is designed so that the door is left open to new cuts in the budget as well as new revenue added to the budget. She said the rationale for why this plan could be a good way forward is that it would eliminate conflicting language in statute, protect against unsustainable growth, protect against damaging year to year budget fluctuations, increase pressure to pass reasonable revenue measures and locate efficiencies, and provide a win on both sides of the aisle.

[11:52:58 AM](#)

MS. SALANGUIT addressed the fifth slide, "HB 260 Modeling Assumptions," regarding different revenue scenarios. She explained that Scenario 1 is for flat funding and no revenue if HB 260 is adopted; Scenario 2 is for a minus \$100 million decrease in appropriations and no revenue; Scenario 3 is for an additional \$100 million and no revenue; and Scenario 4 is for an additional \$100 million in appropriations and an additional \$200 million in revenue. She explained that for these modeling assumptions the sponsor worked closely with Conor Bell of the Legislative Finance Division (LFD); the appropriations in the scenarios incorporate numbers from "HCS 1," which is about a \$600 million add from subcommittees and includes the \$1,300 energy rebate; the revenue estimates were provided by LFD; and the POMV estimates are all the same and are outlined on this slide and 50 percent of the POMV is also depicted on this slide [for fiscal years 2023-2031].

[11:54:08 AM](#)

MS. SALANGUIT turned to the sixth slide, "Scenario 1: Flat fund, no new revenue." She noted that Scenario 1 flat funds the budget from FY 23 and uses those adjustments throughout FY 31 and has no new revenue. She explained that the bars on the graph depicting Scenario 1 represent the entire POMV, the blue is the amount that is left for the [PFD] once the baseline budget is funded, the pink-orange line represents 50 percent of the POMV draw, and the dark orange line shows the dividend payout in normal US dollars as opposed to in millions for the amount left for the PFD and the budget baseline.

REPRESENTATIVE SNYDER added that these next few slides look similar under these different scenarios. However, she said, the last line in the table on each of the slides gives insight into how the percent of the POMV directed toward the PFD from year-to-year changes over time, and over time it is slowly creeping

towards that 50 percent while maintaining some consistency in service funding.

[11:55:56 AM](#)

REPRESENTATIVE EASTMAN asked whether the expectations of permanent fund growth are based on assumptions that were made before or after Russia invaded Ukraine.

REPRESENTATIVE SNYDER deferred to Mr. Bell to provide an answer.

[11:56:16 AM](#)

CONOR BELL, Fiscal Analyst, Legislative Finance Division (LFD), Alaska State Legislature, responded that the division hasn't updated the permanent fund for returns since the Department of Revenue's fall forecast, so the oil price and permanent fund return assumptions used in this model are from that fall forecast. He advised that there probably is some loss to the permanent fund returns at this point, but that the higher oil prices aren't incorporated in this modeling. He stated that the Department of Revenue will be releasing its spring forecast soon, at which time his division will incorporate the updates [into the modeling].

CHAIR SPOHNHOLZ noted that the updated forecast is expected on 3/15/22.

[11:57:15 AM](#)

REPRESENTATIVE WOOL inquired whether "appropriations less revenue" is the budget.

MS. SALANGUIT replied that "appropriations less revenue" is the operating, capital, and mental health budget, and then it takes away other state revenue such as taxes, grants, loans, and federal funds. Then, she continued, there is an exclusion for appropriations for the dividend and inflating proofing of the permanent fund.

[11:58:02 AM](#)

REPRESENTATIVE WOOL surmised that the baseline budget of \$2.5 billion in Scenario 1, flat fund, no new revenue, is a low budget. He further surmised that oil revenue is not being taken into account.

MS. SALANGUIT answered that she believes it is. She said the baseline budget shown [on the sixth slide] is cumulatively adjusted for population change and inflation.

CHAIR SPOHNHOLZ clarified that "appropriations less revenue" is the total operating capital plus mental health budgets less traditional revenue, non-POMV related revenue. So, she said, it is sort of a net number excluding projected oil revenue and other items. It is a very different nomenclature than what is typically used when referencing the budget, she added.

REPRESENTATIVE WOOL noted that oil revenue is the number one non-POMV revenue and it is growing. "It is less all revenue," he continued, "so you are stripping it out the revenue and basic elements of the budget with POMV alone."

MS. SALANGUIT confirmed that that is correct.

CHAIR SPOHNHOLZ offered her belief that the spring revenue forecast will change this substantially. She noted that there is also the understanding that what goes up will come down again, so [legislators] must think about fiscal policy decisions that are made in all possible operating context. She allowed that sometimes [the legislature] has fallen short of its fiduciary responsibility for the state by making long term fiscal policy decisions based on a moment in time and it is known that oil is a highly volatile commodity.

[12:00:26 PM](#)

REPRESENTATIVE WOOL, regarding [Scenario 1] which flat funds the budget, asked why the budget goes down for FY 23 to FY 24 and then goes up again.

REPRESENTATIVE SNYDER replied that it is because the flat budget is not simply from the year before, it is the rolling five-year average; the oldest year is dropped, and a more recent year is picked up. Therefore, she continued, it will bounce around a bit because the five-year bucket from which the average is being calculated bounces around a bit and gives a slightly different number when moving forward year to year.

REPRESENTATIVE WOOL sought to confirm that the baseline budget has nothing to do with revenue because if oil revenue were to fluctuate the line above that would fluctuate since a different amount is being subtracted and oil is not just a straight graph upwards.

REPRESENTATIVE SNYDER responded yes. She stated that the talk about "appropriations less revenue" is because the focus is on what percent of the POMV is needed to ensure flat funding the budget once the amount from other sources is calculated. To the point about fluctuating oil prices, she argued that HB 260 gives more flexibility to respond appropriately and ensure that continuity in services is maintained. She said HB 260 does not prescribe a hard and fast distribution on how to divvy up the POMV. The 50/50 is conditional, she explained, the 50 percent is directed only if there is the ability to flat fund, and if that cannot be done, "then we get to backfill." Whereas, she continued, if it is hard and fast and the market tanks and the percentage doesn't cover the baseline, then alternatives would have to be figured out that aren't necessarily in line with statute.

[12:03:07 PM](#)

REPRESENTATIVE JOSEPHSON asked why he should be fixated on a five-year average when he thinks there has been tremendous underserving of need.

REPRESENTATIVE SNYDER answered she has her own part of the answer but would like for Mr. Bell to answer the question because she worked with him to select that calculation.

MR. BELL responded that he can't speak to the legislative intent behind taking a five-year average budget, but the idea is that it's adjusting of the budget for inflation. He said if there is fluctuation in a given year, such as emergency funding that is unanticipated, it balances out some of those swings in the budget. He stated that if the budget grows in real terms over time, "yes it would not track that." He added that this would be more catered towards mostly unanticipated large spikes in government spending due to any number of factors.

[12:05:06 PM](#)

REPRESENTATIVE STORY inquired whether inflating proofing the budget under HB 260 includes inflation proofing the base student allocation (BSA) for grades K-12.

REPRESENTATIVE SNYDER turned to Mr. Bell to answer the question.

MR. BELL replied that it isn't directly addressed, it is adjusting for inflation and population, and would be assumed to

be a component of that inflationary growth. There is not a separate assumption for the growth rate for education or anything else, he stated. The Legislative Finance Division, he explained, has a baseline agency operations assumption and LFD's top-level modeling doesn't always break out the education specifically.

[12:06:31 PM](#)

REPRESENTATIVE STORY remarked that when fully funding education [the legislature] never accounts for inflation proofing that number of \$1.2 billion, it is kept the same. She said she therefore wouldn't expect for it to be in here, but that it is something which needs to be thought about.

CHAIR SPOHNHOLZ said she thinks the bill's language says adjusting for inflation and not necessarily inflation proofing. The bill is designed to take an average of the operating capital and mental health budgets, with a lagging five-year average, and then adjust it for population and inflation to level out volatility in the dividend and in the budget. She said the committee needs to understand the impacts of the sticky issues that it is identifying. She asked Ms. Nauman whether HB 260 would constrain the legislature's ability to appropriate outside the formula for the operating, capital, and mental health budgets if the legislature wanted to do that.

[12:08:00 PM](#)

EMILY NAUMAN, Legislative Legal Counsel, Legislative Legal Services, Alaska State Legislature, answered, "No, the legislature is free to appropriate any amount of available revenue and balances of accounts in any year." So, she said, even if this bill passed, just as the dividend statutes currently read, the legislature would still be free to appropriate any amount for the dividend or any other budget.

CHAIR SPOHNHOLZ stated that that is a constitutional requirement that the legislature has the ability to appropriate.

MS. NAUMAN responded, "Yes."

REPRESENTATIVE SNYDER noted that constitutionally and through the courts it has been reaffirmed that the legislature can appropriate funds as it sees fit. She pointed out that HB 260 would also allow for adding to the budget and reducing the PFD or the proportion of the POMV sent to the PFD in any year. It

would simply be a conversation that would have to be had and agreed upon within the legislature with the necessary votes to increase the budget and as a result decrease the PFD, she added.

[12:09:37 PM](#)

REPRESENTATIVE EASTMAN noted that HB 260 would not amend the constitution and the limits in the bill would not necessarily constrain the legislature's activity. He requested the sponsor to speak to what she was referring to when she used the word constitutional in her opening presentation.

REPRESENTATIVE SNYDER replied it was simply to say that nothing in HB 260 would violate what is currently permitted or required in the constitution. She said the bill is also conducive to any future additional activities as discussed and recommended by the Fiscal Policy Working Group.

[12:10:19 PM](#)

REPRESENTATIVE EASTMAN asked about how the population adjustment would be made and whether a certain threshold of population change must happen before adjustment occurs. He further asked about how recent the population data is that triggers the adjustment. He also asked whether people leaving the state would trigger the same kind of adjustment or whether it is anticipated that the state population will continue to grow.

MS. SALANGUIT offered her belief that the population adjustments are done annually using data from the Department of Labor and Workforce Development.

[12:11:24 PM](#)

REPRESENTATIVE SNYDER displayed the seventh slide, "Scenario 2: -\$100 budget, no new revenue," and resumed her presentation. She directed attention to the bottom row of the table and related that if the budget was cut by \$100 million with no new revenue, the percent of POMV for the PFD would bounce a bit because there is variation in the calculation of the baseline budget and other assumptions, but that the percent would slowly increase.

REPRESENTATIVE SNYDER continued to the eighth slide, "Scenario 3: +\$100 budget, no new revenue." She related that if the budget was increased by \$100 million with no new revenue, and all other assumptions remained the same, there would again be a

slight variation [and the percent of POMV for the PFD would increase]. She offered her belief that the Fiscal Policy Working Group's recommendation for revenue generation was \$500 million to \$700-plus million and said that it would more quickly move toward the 50/50 split. She argued that a take-away with HB 260 is that it could, for some, increase pressure or increase motivation for identifying new revenue sources.

[12:13:31 PM](#)

REPRESENTATIVE WOOL asked whether the \$100 million would be a one-time addition or an addition every year.

MS. SALANGUIT responded it would be an addition of \$100 million every year beginning in FY 24 and that will be the same assumption for future models; any changes in appropriations or revenue will begin in FY 24 and go through FY 31.

CHAIR SPOHNHOLZ stated that the annual addition is an important data point for committee members.

REPRESENTATIVE SNYDER addressed what would happen under HB 260 if new revenue was generated. She explained that if the state's various sources of revenue - including taxes, federal funds, plus 50 percent of the POMV - would flat fund the budget, then the other 50 percent of the POMV would go to the PFD. Any new revenue, she explained, would first go toward ensuring that the baseline budget is flat funded. Once the baseline budget was flat funded, she stated, the legislature would be free to use any remainder to increase the budget and not direct it toward a 50 percent PFD. But, she continued, if the legislature decided not to increase the budget, the first next step would be bringing up the PFD to 50 percent. Representative Snyder further explained that if the budget was kept flat and a 50 percent PFD was achieved with the new revenue, the legislature would be able to direct any remainder of that new revenue. However, she specified, that remainder could not go to the PFD because the bill says the cap is 50 percent, so it could go to savings, expanding the budget, or whatever made sense.

[12:16:52 PM](#)

REPRESENTATIVE SNYDER turned to the ninth slide, "Scenario 4: +100 Budget, +200 Revenue." She noted she has other scenarios available to share as well as scenarios utilizing the governor's amended budget. She said Scenario 4 is still the HCS 1 and models an addition of \$100 million to the budget with \$200

million in new revenue. She drew attention to the progression in the last row of the table [from 23 percent of POMV for PFD in FY 23 to 38 percent in FY 31].

12:17:28 PM

REPRESENTATIVE EASTMAN asked how the next year's dividend would be impacted if money went towards savings instead of the PFD.

REPRESENTATIVE SNYDER answered that money directed towards savings would not be calculated into the new baseline budget.

REPRESENTATIVE EASTMAN asked how that would impact the value of the next year's dividend.

REPRESENTATIVE SNYDER replied that it would be the same as in any other scenario - it would take the five-year rolling average not including funds that were directed towards savings.

REPRESENTATIVE EASTMAN posed a scenario in which \$10 billion is added to savings. He asked whether that would impact the amount of the next year's dividend or whether that would be a separate calculation.

REPRESENTATIVE SNYDER offered her understanding that it wouldn't impact it. She deferred to [Mr. Bell] to answer further.

MR. BELL confirmed Representative Snyder's answers are correct. If the revenue was higher than the appropriations in the budget, he explained, that surplus money would automatically lapse into the constitutional budget reserve (CBR). If there was a year in which a significant amount of money was lapsed into the CBR, he continued, the adjusted appropriations would be much lower than the revenue. That would lead to raise the calculated PFD amount, he said, but it wouldn't be counted as an appropriation.

12:19:38 PM

REPRESENTATIVE WOOL commented that when lots of revenue comes in there is temptation historically to spend more. He posed a scenario in which the PFD is at 40 percent instead of 50/50 and said there would be pressure to get it up to 50 percent. He posited that many people would demand that the 50/50 happens first before any extra spending on the budget.

REPRESENTATIVE SNYDER responded that that pressure is being experienced now and has been for several years. She said a

benefit of HB 260 is that the legislature would then be following the law, which is heard a lot from constituents and reasonably so. The way HB 260 is written, she asserted, would add positive pressure in both directions. Pressure would be added for new revenue, she continued, because then in theory more could be directed to the PFD. The bill would also allow the legislature to increase the budget, but because it would come at the cost of a larger PFD it would rightfully put pressure on legislators to ensure the budget is being grown in a smart way and that it can be justified.

[12:22:37 PM](#)

REPRESENTATIVE WOOL asked whether pressure to raise new revenue to pay a PFD up to the 50/50 level could be a problem.

REPRESENTATIVE SNYDER answered that there are different ways to answer the question and she can only answer from her interpretation. She said revenue is raised in a different way under different formulas and impacts different Alaskans at different levels. The PFD is the same amount to every Alaskan, she continued, so a dollar out of the PFD impacts Alaskans differently than, say, a dollar collected through something like an income tax.

CHAIR SPOHNHOLZ stated that from her perspective the answer to the question is that the first place the revenue goes is to the budget, not to the dividend. If there is additional revenue, she said, that revenue doesn't flow directly to dividends, it flows to the budget as the first point in time, and the dividend formula is based on the balance at that point in time.

[12:25:14 PM](#)

REPRESENTATIVE EASTMAN requested a real-world example of how last year's dividend would have been impacted had HB 260 been law at that time.

CHAIR SPOHNHOLZ asked whether there is retrospective modeling.

MS. SALANGUIT replied yes, but [the modeling] wasn't included in the presentation because then it would have been too crowded. She said the sponsor will share those numbers after the hearing.

[12:26:02 PM](#)

REPRESENTATIVE SNYDER thanked the committee for hearing HB 260.

[HB 260 was held over.]

HB 223-REPEALING FUNDS, ACCOUNTS, AND PROGRAMS

[12:26:20 PM](#)

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."

[12:26:39 PM](#)

CHAIR SPOHNHOLZ moved to adopt Amendment 1 to HB 223, labeled 32-LS0830\B.2, Marx, 3/8/22, which read:

Page 1, line 1, following "**Act**":

Insert "**relating to inactive state accounts and funds;**"

Page 1, following line 8:

Insert new bill sections to read:

"* **Section 1.** AS 24.20.231 is amended to read:

Sec. 24.20.231. Duties. The legislative finance division shall

(1) analyze the budget and appropriation requests of each department, institution, bureau, board, commission, or other agency of state government;

(2) analyze the revenue requirements of the state;

(3) provide the finance committees of the legislature with comprehensive budget review and fiscal analysis services;

(4) cooperate with the office of management and budget in establishing a comprehensive system for state budgeting and financial management as set out in AS 37.07 (Executive Budget Act);

(5) complete studies and prepare reports, memoranda, or other materials as directed by the Legislative Budget and Audit Committee;

(6) with the governor's permission, designate the legislative fiscal analyst to serve ex officio on the governor's budget review committee;

(7) identify the actual reduction in state expenditures in the first fiscal year following a review under AS 44.66.040 resulting from that review and inform the Legislative Budget and Audit Committee of the amount of the reduction; and

(8) not later than the first legislative day of each first regular session of each legislature,

(A) conduct a review in accordance with AS 24.20.235 of the report provided to the division under AS 43.05.095; and

(B) conduct a review of inactive state accounts and funds, make recommendations regarding which inactive state accounts and funds, if any, should be repealed, and submit an electronic report of the division's recommendations to the governor, the president of the senate, the speaker of the house of representatives, the chair of the finance committee of each house of the legislature, the senate secretary, and the chief clerk of the house of representatives, and notify the legislature that the report is available.

* **Sec. 2.** AS 37.07.020 is amended by adding a new subsection to read:

(f) The governor shall review the report submitted by the legislative finance division under AS 24.20.231(8)(B) and may introduce legislation in accordance with the report."

Page 1, line 9:

Delete "**Section 1**"

Insert "**Sec. 3**"

REPRESENTATIVE EASTMAN objected for discussion purposes.

[12:26:45 PM](#)

CHAIR SPOHNHOLZ explained Amendment 1 would require that Legislative Finance Division produce recommendations regarding which inactive fund should be repealed at the beginning of each two-year legislative cycle, and the recommendations would be forwarded to the governor and the legislature for consideration.

She said Amendment 1 would also encourage the governor to introduce legislation in accordance with the report. While the legislature can't tell the governor what to do, she noted, the legislature can encourage the governor to do that. The intent of the amendment, she stated, is to create a system in which inactive funds are regularly reviewed and acted upon, incorporating Representative Kaufman's continuous quality improvement feedback loop into the process.

REPRESENTATIVE EASTMAN asked what the criteria would be for making that recommendation, other than the Legislative Finance Division's opinion. He further asked whether the division would be encouraged to give as long a list of funds to repeal as possible or whether there is some other guidance.

[12:28:04 PM](#)

REPRESENTATIVE JAMES KAUFMAN, Alaska State Legislature, as prime sponsor of HB 223, responded that in a general sense it is time and inactivity or if there is a known lack of need for the fund. There is some subjectivity to it, he said, but if there had to be criteria it would be what the fund was created for, whether it is still needed, and long it has been unused. He advised that while criteria can be made for it, that would sometimes still miss things that could be opportunities.

CHAIR SPOHNHOLZ noted that the large list of potential funds in HB 223 was whittled down through the process of looking at which ones were practical to close and hadn't had activity. She said Amendment 1 is crafted broadly and the legislature can decline to act on any of the recommendations at any time. The amendment has no automatic closure element, she continued, it is just asking the Legislative Finance Division to produce a report and share it with the legislature and the administration to provide an ongoing feedback loop that is designed to help with being more effective as a government.

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REPRESENTATIVE EASTMAN withdrew his objection. There being no further objection, Amendment 1 was adopted.

[12:29:41 PM](#)

REPRESENTATIVE JOSEPHSON moved to adopt Amendment 2 to HB 223, labeled 32-LS0830\B.1, Marx, 2/28/22, which read:

Page 1, line 2:

Delete "**relating to the Railbelt energy fund;**"

Page 1, line 9:

Delete "AS 37.05.520, 37.05.610"

Insert "AS 37.05.610"

REPRESENTATIVE EASTMAN objected for discussion purposes.

[12:29:48 PM](#)

REPRESENTATIVE JOSEPHSON explained Amendment 2. He related that the Legislative Finance Division and the Alaska Energy Authority (AEA) have raised concerns about repealing the Railbelt energy fund. There are two projects that are still under the umbrella of the fund, he said, and the \$3 million existing in it recently came from lapsed funds in those projects. He related that if those projects lapse funds in the future, the Legislative Finance Division believes they should go back into the Railbelt energy fund. The question of repealing the Railbelt energy fund is a larger one than simply a cleanup of the dormant and inactive funds, he continued. If the bill's purpose is to simply be a cleanup bill to repeal inactive funds, he stated, the Railbelt energy fund should remain as having a modicum of merit still.

REPRESENTATIVE KAUFMAN suggested that Mr. Thayer be able to provide AEA's comment on Amendment 2.

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CURTIS THAYER, Executive Director, Alaska Energy Authority (AEA), stated that he agrees with Representative Kaufman and Representative Josephson on Amendment 2 regarding the Railbelt energy fund. He related that in 1991 when Bradley Lake Hydroelectric Project was built, a power sales agreement was signed with all the utilities including AEA's predecessor but now AEA. One of the provisions in the 30-year-old document, he said, is the disposition of payments which states that all excess payment amounts received from purchasers and all additional charges paid pursuant to Section 29(b) shall be paid to AEA for deposit in the Railbelt energy fund. The bonds were paid off in July [2021], he specified, and AEA with the utilities can use it for required project work to benefit Bradley and if there is not identified projects on Bradley that would improve it then the excess payments, which could be up to \$12.5 million would be deposited into the Railbelt energy fund.

This piece has been silent for 30 years, Mr. Thayer continued, because there wasn't the ability or the funds available, but potentially for the next 20 years there could be funds to deposit in the Railbelt energy fund. He said AEA and the utilities would prefer to keep the Railbelt energy fund as is as not to reopen a 30-year-old agreement.

REPRESENTATIVE EASTMAN inquired about the point at which the current agreement would expire or would need to be renewed.

MR. THAYER replied approximately 2050.

REPRESENTATIVE EASTMAN withdrew his objection. There being no further objection, Amendment 2 was adopted.

[12:33:15 PM](#)

REPRESENTATIVE JOSEPHSON moved to adopt Amendment 3, labeled 32-LS0830\B.3 Marx, 3/8/22, which read:

Page 1, line 3:

Delete "**relating to the Alaska affordable energy fund;**"

Page 1, line 9:

Delete ", 37.05.610"

REPRESENTATIVE EASTMAN objected for discussion purposes.

[12:33:18 PM](#)

REPRESENTATIVE JOSEPHSON explained that Amendment 3 is about 37.05.610, the Alaska affordable energy fund, created in 2014 as part of either House Bill 4 or Senate Bill 138, he believes, on the large gasline. He paraphrased from AS 37.05.610(a) and (b), which are written as follows [original punctuation provided]:

(a) The Alaska affordable energy fund is created as a special account in the general fund. The fund consists of the amount determined and deposited in the fund under (b) of this section and interest earned on the fund balance. The purpose of the fund is to provide a source from which the legislature may appropriate money to develop infrastructure to deliver energy to areas of the state that are not expected to have or do not have direct access to a North Slope natural gas pipeline.

(b) The amount to be deposited in (a) of this section is 20 percent of the revenue received from the state's royalty gas transported in an Alaska liquefied natural gas project that remains after the payment to the Alaska permanent fund under AS 37.13.010.

REPRESENTATIVE JOSEPHSON stated that [this fund] seems like a good idea on paper, somebody put energy into it eight years ago, and the gasline is something this administration wants, as did the previous administration. The interest to be served, he continued, is infrastructure development off the Railbelt between Prudhoe roughly and Southcentral Alaska and he doesn't want to bury this into the historical footnote.

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REPRESENTATIVE EASTMAN asked whether some other activity will be required on the part of the legislature if the state were to begin using this fund as originally designed or whether it is just waiting for some change in market forces. He surmised it would be easy to reactivate this fund or come up with something better should the legislature need to make changes in the future to bring this back to life.

REPRESENTATIVE JOSEPHSON answered that things in the books will be reviewed and those that aren't may not. He posited that it could be a component part of the larger bill, a deal that was struck, someone's win that required a sacrifice of other elements. He said he is inclined to leave it there because it looks to be in defense of rural Alaska.

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REPRESENTATIVE KAUFMAN said he respects the sponsor's argument, but in a slight rebuttal he would say that it's that instinct which has perhaps kept so many of these dormant accounts sitting around. He stated that the bill's only intent is to clean up that which isn't needed, and he has no strong objection to Amendment 3.

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REPRESENTATIVE EASTMAN spoke to his objection to Amendment 3. He stated that in looking to create this better process going forward, the precedents that are set are important. He argued that the criteria should be focused objectively and on whether it has a legal effect, not on why a particular bill got into law

or was sponsored by a particular legislator. If it has a legal effect now like Amendment 2, he said, then he would maybe support keeping that. But, he continued, if it isn't needed, isn't being used, or doesn't have a legally beneficial purpose, then it should be slotted for being removed and then put back at a different time or in a better way.

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REPRESENTATIVE STORY commented that the things brought up by Representative Eastman are things always taken into account. With the Alaska affordable energy fund, she said, consideration must be given to how current is the need, and this is very current and something the legislature is trying to ensure all of Alaska has. So, she stated, it seems right to keep that account.

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CHAIR SPOHNHOLZ related that the governor recently announced he believes Alaska is closer than ever to a gasline. She said that while she isn't sure she entirely agrees, she understands the rationale behind leaving this fund on the books. She pointed out that Amendment 1 creates an ongoing feedback loop, so even if the committee chooses to leave this fund on the books now, a mechanism has been created for addressing it in the future.

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REPRESENTATIVE EASTMAN maintained his objection to Amendment 3.

[12:41:14 PM](#)

A roll call vote was taken. Representatives Wool, Josephson, Story, and Spohnholz voted in favor of Amendment 3. Representative Eastman voted against it. Therefore, Amendment 3 was adopted by a vote of 4-1.

[12:41:41 PM](#)

CHAIR SPOHNHOLZ announced that HB 223 was held over.

[12:42:02 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 12:42 p.m.