

SENATE FINANCE COMMITTEE

May 7, 2021

9:03 a.m.

[9:03:00 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:03 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator Donny Olson
Senator Natasha von Imhof (via teleconference)
Senator David Wilson

MEMBERS ABSENT

Senator Bill Wielechowski

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division.

SUMMARY

CSHB 69 (FIN) am

APPROP: OPERATING BUDGET/LOANS/FUNDS

CSHB 69 (FIN) was SCHEDULED but not HEARD.

CSHB 71 (FIN)

APPROP: MENTAL HEALTH BUDGET

CSHB 71 (FIN) was SCHEDULED but not HEARD.

^LEGISLATIVE FINANCE DIVISION - ALASKA'S CASH POSITION and ERA SCENARIOS

[9:06:06 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed, "Responses to Questions Posed in May 5th

Hearing" (copy on file). He looked at slide 2, "Permanent Fund Performance in FY21":

- Callan median forecast for FY21 was for 6.48 percent total return (\$4,010 million) and 5.45 percent realized return (\$3,328 million)
- Actual total income through March 31 was \$13,903 million and statutory net income was \$5,272 million
- Even assuming no total income from April 1-June 30, APFC would likely realize at least an additional \$350 million due to interest and rental income
- LFD will compare three scenarios: the Callan median forecast, actual returns through 3/31, and actual returns plus the \$350 million baseline for the remainder of the year

[9:09:55 AM](#)

Mr. Painter pointed to slide 3, "Realized ERA Balance by FY21 Return Assumption (\$millions)." He stressed that the gains must be "realized in order to be spendable."

Co-Chair Stedman surmised that that the \$2 billion inflation proofing referenced was about the \$2 billion appropriation bill the day prior for the operating budget.

Mr. Painter agreed.

Co-Chair Stedman remarked that the issue was brought forward in order for the committee members to discuss the additive to the corpus. He felt that it might not be considered "inflation proofing", but rather simply an addition to the Permanent Fund. He requested a history of inflation proofing to the fund.

Mr. Painter replied that there was not a slide related to inflation proofing, but there was a slide on additional appropriations beyond inflation proofing.

Senator Wilson wondered whether the assumptions on slide 3 included the capital budget.

Mr. Painter replied that the slide assumed that the only draw out of the fund was for the percent of market value (POMV) draw. He stated that additional draws to pay for other costs would reduce the numbers.

Senator Wilson surmised that the assumptions did not include the permanent fund dividend (PFD).

Mr. Painter replied that is assumed that the PFD would be paid for through a source other than an additional draw from the Earnings Reserve Account (ERA).

Co-Chair Stedman stated that the assumption would be considered an "ad hoc draw."

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Senator Hoffman remarked that the dividend was often "blamed for the ad hoc draw", because it was usually the last to receive appropriation.

Co-Chair Stedman remarked that, because of the comingling of the draw, it could not be isolated.

Senator von Imhof stressed that a \$1600 PFD check across the state would total approximately \$1 billion.

Co-Chair Stedman queried the market value date.

Senator von Imhof replied that it was as of March 31.

Co-Chair Stedman queried the difference between the slide and the Permanent Fund website.

Mr. Painter explained that the difference was the unrealized gains.

Senator von Imhof replied that the issue was similar to real estate.

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Senator Wilson noted that the website had an asterisk that addressed some of the unencumbered dedicated funds, and wondered whether that was related to some of the POMV discussion.

Mr. Painter agreed. He stated that the Permanent Fund statement showed the amount of POMV, which had been transferred to the general fund to date. He furthered that the entirety was appropriated, as a result the entirety would be considered "gone."

[9:21:24 AM](#)

Mr. Painter looked at slide 4, "Statutory PFD Calculation by FY21 Return Assumption." He noted that the number used when the governor's budget was prepared was a transfer of just over \$2 billion. He estimated that it would pay a PFD of approximately \$3100 per person. That number was based on the same number of recipients of the PFD as received the previous summer. He stated that the Permanent Fund Dividend Division had received a similar number of applicants.

Co-Chair Stedman surmised that the targeted rate per individual was \$3400 to \$3500, if there was an appropriation of the statutory PFD.

Mr. Painter agreed.

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Senator Hoffman queried a thumbnail sketch of a fifty-fifty dividend.

Mr. Painter replied that a PFD based on 50 percent of the POMV draw would be approximately \$1.5 billion, which would pay a PFD of approximately \$2400 per person. He stated that a \$1000 PFD would cost just under \$680 million. He explained that the year prior had appropriated \$680 million, which was only slightly insufficient for \$1000. He felt that, based on the changes in the PFD calculation, a \$680 million would now be sufficient.

Senator von Imhof wondered whether there was a current model of the different changes.

Co-Chair Stedman stated that LFD would provide a sensitivity chart addressing the different amounts.

Senator von Imhof requested a sensitivity analysis of the consequences of each PFD draw amount.

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Senator Hoffman felt that there could be an analysis and discussion around the potential savings in other areas of the state by reducing the statutory PFD amount.

Co-Chair Bishop stressed that the more money taken from the Permanent Fund requires raising revenue in other areas of the state.

Co-Chair Stedman recalled that several years prior, the committee sent a proposal at a 26 percent PFD.

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Mr. Painter highlighted slide 5, "Special Appropriations to Permanent Fund Beyond Statutory Inflation Proofing (\$millions)." He noted the number the legislature had inflation proofed beyond the statutory amount.

Co-Chair Stedman reflected in past appropriations, and felt that the committee should consider the \$2 billion, and whether that was a comfortable number.

Senator von Imhof wanted to discuss inflation and the price of consumer products. She asserted that inflation was real and believed that the committee should keep it at the forefront.

Senator Olson requested confirmation that transfers from the ERA did not affect individual PFDs.

Co-Chair Stedman replied in the affirmative.

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Senator Hoffman remarked that the legislature had supported that appropriation, and stressed that there should be a consideration of a long-term solution to avoid the conversation with "greedy legislators."

Co-Chair Stedman agreed.

Mr. Painter discussed slide 6, "Permanent Fund Balance by Source as of 6/30/20." He stated that there was sometimes confusion around the source of money. He explained each source in the fund.

9:45:04 AM

Co-Chair Stedman wondered whether appropriation from the general fund was 43 percent of the POMV.

Mr. Painter replied in the affirmative.

Co-Chair Bishop felt that lawmakers had recently used fiduciary ethic in protecting the fund.

Co-Chair Stedman acknowledged the previous members of the legislature in supporting 43 percent of POMV.

Mr. Painter discussed slide 7, "Fiscal Summary Assuming \$70 per Barrel ANS Price." He stated that the Department of Revenue (DOR) Spring Forecast was based on a \$61 per barrel price, which left a roughly balanced budget without a PFD.

Co-Chair Stedman stressed that starting in July there could be an increase to the treasury with a \$70 per barrel assumption.

Senator Hoffman queried the vehicle of the payment of the PFD.

Co-Chair Stedman stated that those discussions would take place in caucus meetings. He stated that he would like to see it in the operating budget bill.

#hb69

#hb71

CSHB 69 (FIN) AM

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making capital appropriations, supplemental appropriations, and reappropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

CS FOR HOUSE BILL NO. 71 (FIN)

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; making supplemental appropriations; and providing for an effective date."

CSHB 69 (FIN) was SCHEDULED but not HEARD.

CSHB 71 (FIN) was SCHEDULED but not HEARD.

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ADJOURNMENT

9:52:39 AM

The meeting was adjourned at 9:52 a.m.