

SENATE FINANCE COMMITTEE  
THIRD SPECIAL SESSION  
September 11, 2021  
2:03 p.m.

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CALL TO ORDER

Co-Chair Bishop called the Senate Finance Committee meeting to order at 2:03 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Angela Rodell, Executive Director, Alaska Permanent Fund Corporation; Alexei Painter, Director, Legislative Finance Division; Senator Mike Shower; Representative Andy Josephson; Representative Dan Ortiz.

SUMMARY

^PRESENTATION: PFD FISCAL MODELING SCENARIOS

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Co-Chair Bishop explained that the committee would hear from the director of the Alaska Permanent Fund Corporation (APFC) and hear a presentation on Permanent Fund Dividend (PFD) fiscal modeling scenarios from the Legislative Finance Division (LFD) director.

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ANGELA RODELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, stated she was present to answer questions.

Co-Chair Stedman recounted that the previous day, the committee had discussion with the Department of Revenue (DOR) that included the topic of an overdraw on the Permanent Fund beyond the 5 percent payout cap. He thought it had been insinuated that it was ok to overdraw on large endowment funds without an adverse effect on the fund. He could not correlate the statement to any other information he had heard in the past. He asked if there was any impact such as lost opportunity cost if the legislature started to make ad hoc draws from the Permanent Fund.

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Ms. Rodell wanted to walk through the management of the fund to illustrate the answer to Co-Chair Stedman's question. She detailed that the corporation statutes had not been touched other than to put in the Prudent Investor Rule in 2005. Prior to that time, there was a list of investments the board of trustees was allowed to use to invest the funds. The rest of the statutes had been in place since 1980, including the mission statement and the legislative findings. The mission was for the board to manage and invest the funds, and the findings stipulated that the corporation maximize returns, minimize risk, and ensure there was an intergenerational effect. She paraphrased that none of the actions the trustees took should cause a loss that could impair future generations from benefitting from the fund.

Ms. Rodell continued that each year the board worked on asset allocation designed to maximize returns (with a long-term target of 5 percent plus inflation) as well as considering risk and working to mitigate the risk associated with the asset allocation. She listed the group of funds under APFC's care: the principal of the Permanent Fund, the Earnings Reserve Account (ERA), Alaska Mental Health Trust funds, and Amerada Hess settlement funds. According to the direction given in statute, all funds were to be invested like the Permanent Fund. Currently the asset allocation was 38 percent to stocks, 20 percent to bonds, 2 percent to cash, and a balance of 40 percent in private alternative assets like real estate, and private equity and income.

Ms. Rodell continued that the allocation considered a total amount of a certain size. When there were ad hoc or unplanned draws of the magnitude that had been discussed, the amount of money invested was significantly decreased. All of the money in the draws would come out of the public side of investments, which had more liquidity. The effect was an overweight in the private side of allocations, which had a different risk profile than intended. To diminish exposure took one to two years. She emphasized the importance of known draw amounts in order to manage the long-term investment in a risk adjusted way so as to not get "upside down" in the asset allocation, risk tolerance, and returns.

Ms. Rodell mentioned that private equity for FY 21 returned 59 percent versus 48 percent on the public equity side. There were meaningful investments that had returned incredible wealth to the state, that could not be unwound quickly or easily. She mentioned that a downturn in the market could also cause unintended consequences. She mentioned the effect of having to move more funds than intended out of certain buckets in order to assume consequences of ad hoc draws.

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Co-Chair Stedman noted that the committee was considering SB 53 [which proposed to establish a new statutory framework for spending of permanent fund income], and the current draft of the bill proposed to have a 1.5 percent overdraw for two years. He asked if the amount was significant and wondered at what point the legislature should be paying attention to the matter.

Ms. Rodell thought Co-Chair Stedman's question was difficult to answer. She reminded that it was the legislature's responsibility to set policy on how the ERA would be spent. She recounted that the trustees had advocated for years (and reaffirmed in 2020) that to keep balances in the ERA for four times the amount to help cushion and plan for events. When SB 26 [which established the current percent of market value (POMV) draw] statutes were being discussed, the amount of 5.25 percent for three years with a step down to 5 percent was discussed to provide a "glide path," and the current amount was 5 percent. She thought it was a difficult conversation

because the state was in the position to decide what was prudent.

Co-Chair Stedman asked if it would impact the fund's management strategy if the legislature were to want the Permanent Fund to generate the extra 1.5 percent for two years. He asked Ms. Rodell to elaborate on the last two year's performance. He made note of positive performance returns in the previous year and thought the returns were far from the mean. He asked if the legislature should be more cautious that the returns would regress to the mean or if it could be expected that the returns would stay high.

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Ms. Rodell thought Co-Chair Stedman highlighted an important point. She recalled that FY 20 ended the fiscal year with the fund earning 2.04 percent. From July 1, 2019, through June 30, 2020 it was a really challenging year. In March of 2020, the value of the fund dropped to \$60 billion at one point. The state had been fortunate that the fund had been able to put cash into the market to recover and receive the returns over the past year. She relayed that all of the corporation's consultants had advised that the fund should expect a lower return environment over the next ten years. The all-time high valuations over all asset classes would be difficult to sustain. She noted that the recent returns had been the highest she had seen in her 30-year career. She thought the situation should highlight how rare the condition had been and how lucky the state was that the fund was able to take the opportunity.

Co-Chair Stedman thought Ms. Rodell's response had tied together his question about huge returns and taking overdrafts.

Senator von Imhof considered that 5 percent was the prevailing draw rate for endowments and sovereign wealth funds. She asked about the draw rate of the Mental Health Trust Fund.

Ms. Rodell recalled that the trust's draw rate was either 4.25 or 4.75.

Senator von Imhof asked about the general draw rate of other endowments, foundations, and sovereign wealth funds.

Ms. Rodell explained that a number of sovereign wealth funds would have variable draw rates under certain conditions. She mentioned limiters on gross domestic product growth and other things. She relayed that generally the amount ranged in between 3 percent and 5 percent.

Senator von Imhof asked about a recent draw rate change to the sovereign wealth fund in Norway.

Ms. Rodell thought Norway's rate had been increased from 3 percent to four percent.

Senator von Imhof recalled that Norway had dropped the rate from five percent to four percent in the previous few years.

Ms. Rodell understood that the Norwegian fund's draw rate could go to up five percent, but it had not. When she had spoken with individuals at the Norwegian fund two weeks previously, she learned that the fund had historically been at a 3 percent draw rate but was increasing to a 4 percent rate in the current year.

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Senator von Imhof thought the federal government assumed the maximum draw rate for private foundations and endowments was 5 percent, and all excise taxes on grants were based on an assumed 5 percent give-away. She thought 5 percent was the "tried and true" tested draw amount across decades and was sustainable over time.

Co-Chair Bishop referenced the 1.5 percent overdraw as proposed in a bill the committee was considering. He thought Ms. Rodell had indicated that it would take the corporation two years to unwind some of the asset allocations.

Ms. Rodell specified that in order to rebalance the Permanent Fund portfolio to the risk and return allocation set by the board, it would take up to two years to reduce the exposure to private assets and get back to the asset allocation.

Co-Chair Bishop asked about the potential for lost opportunity cost by going to a 6.5 percent draw versus leaving the draw at 5 percent.

Ms. Rodell thought there was a potential for opportunity cost with the proposal in the sense that the provision proposed to take money out of some of the highest and best performing assets of the fund and putting them into lower risk, lower returning assets by the nature of rebalancing. There was a potential effect of lost return.

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Senator von Imhof thought if the committee were to discuss an increased draw rate, it was important to consider generation of returns to cover the five percent draw, as well as inflation to avoid eroding the value of the dollar. She contended that inflation went up and the draw was larger than 5 percent, there were increased "return hurdles" and it was harder and harder for the investing team to meet the return goals for the Permanent Fund.

Co-Chair Stedman thanked Ms. Rodell for her work and her presence at the meeting. He wondered if she could comment on the \$4 billion appropriated to the constitutionally protected side of the fund that could not be spent. He thought the appropriation, along with another \$4.9 billion appropriated a few years previously, were significant actions that were taken on behalf of future generations.

Ms. Rodell commented that the \$4 billion that was appropriated in the FY 22 budget had been moved immediately because the way the budgetary language had been drafted. She noted that the APFC July 2021 statement would show the effect of the transfer and would show a principal total of \$66.2 billion, including \$15.2 billion of unrealized gains. The core corpus and protected balance of the fund was \$50.9 billion after the transfer.

Co-Chair Bishop echoed Co-Chair Stedman's comments.

^PRESENTATION: PFD FISCAL MODELING SCENARIOS

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ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed the presentation "PFD Fiscal Modeling Scenarios" (copy on file).

Mr. Painter showed slide 2, "Disclaimer":

Scenarios and adjustments in this presentation were requested by the Finance co-chairs. LFD is policy neutral and does not endorse a particular fiscal plan.

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Co-Chair Bishop clarified that the modelling that Mr. Painter was presenting was a pre-cursor to what SB 53 was attempting to achieve in the forthcoming Committee Substitute (CS).

Co-Chair Stedman recalled that several years ago when the legislature was struggling with the budgets, the decision had been made to forward-fund education, as well as setting the PFD for a couple of years in advance. He discussed considering rewriting the dividend formula, which after 40 years was out of sync structurally with the composition and size of the Permanent Fund. He noted that the committee had been working on a substantial CS for SB 53, which would propose setting a dividend rate of \$1,100, \$1,200, and \$1,300 over subsequent years. He mentioned a 50/50 provision that would split the 5 percent payout with half to the dividends and half to the state.

Co-Chair Stedman continued his comments. He explained that the CS for SB 53 was in the final edit and would be further reviewed before consideration by the committee. The co-chairs had thought the committee should consider the financial implications of the CS due to the rapidly advancing time frame of the special session. There would be further review and discussion, as well as amendments when the bill was before the committee. He hoped that whatever dividend policy that was advanced in the legislature, it would stand for 30 or 40 years.

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Co-Chair Bishop recognized that Representative Ortiz, Representative Josephson, and Senator Shower were in attendance.

Mr. Painter turned to slide 3, "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.

Mr. Painter discussed slide 4, "Review of Modeling Baselines (cont.)":

#### 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.

Mr. Painter noted there had been a minor update since the last time LFD had presented after receiving final numbers from the Permanent Fund, which showed a slight increase from prior numbers.

Co-Chair Bishop asked if Mr. Painter had checked with the administration to ask if the numbers took into account what had happened in Willow.

Mr. Painter noted that the spring forecast was based on the Department of Natural Resources' (DNR) production forecast from the previous fall, and did not take changes from the Willow field into account. He thought the new fall forecast would be released in December and would incorporate the information. He noted that new fields did not provide a lot of revenue because of gross value reduction, so even delaying a new field by a few years did not make a huge impact on revenue.

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Mr. Painter referenced slide 5, "Review of Modeling Baselines (cont.)":

Spending Assumptions

- For agency operations, these scenarios assume 50% of vetoes are restored to the FY22 enacted budget. Budgets grow with inflation starting in FY23 (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, oil and gas tax credits. We assume oil and gas tax credits are unfunded in FY22 but statutorily funded beginning FY23 until the credit balance is eliminated.
  - 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.

Mr. Painter noted that in HB 3003, there were additional FY 22 appropriations. He also noted there was some funding in the bill for statewide items. He noted that the capital budget was about \$240 million in unrestricted general funds (UGF), significant amounts of which the governor had vetoed.

Co-Chair Bishop noted that now it was known that when the federal infrastructure package went through, the state would have to provide a reasonable and customary match.

Mr. Painter presented slide 6, "A Note on Retirement Funding":

- LFD's modeling generally uses the ARM Board's most recent officially-adopted contribution schedule, currently the one adopted in June 2021. However, this does not include the impact of FY21 earnings.

- The September ARM Board meeting will adopt updated projections that may resemble DOR's preliminary numbers more closely than the June figures.
- This presentation uses preliminary actuarial analysis presented by DOR in July and used by the Comprehensive Fiscal Plan Working Group. The analysis shows significantly lower retirement contributions than the official June figures ordinarily used by LFD.

Mr. Painter spoke to slide 7, "A Note on Retirement Funding (cont.)," which showed a data table entitled 'Comparison of previous LFD assumption (June ARM Board adjusted for SB 55) and July draft with FY21 earnings.'

Mr. Painter referenced the table on slide 7, and drew attention to the first column, which showed the previous assumption of \$245 million in FY 23 growing to \$323 million. The July draft numbers from DOR showed \$180 million dropping to \$108 million by FY 26, then growing slightly. He explained that on a year-to-year basis, the reductions started at \$65 million and then grew to \$205 million by FY 30. Cumulatively, the change in assumptions reduced the budget by \$1.26 billion over the forecast area.

Co-Chair Bishop made the point that eight years previously the committee had wisely deposited \$3 billion into state retirement funding.

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Senator von Imhof understood that the Alaska Retirement Management (ARM) Board reviewed the chart periodically. She asked Mr. Painter how often the board reviewed the numbers.

Mr. Painter informed that the ARM Board reviewed the numbers four times per year, and the board met in June, September, December, and March.

Senator von Imhof thought the table looked wildly different than it had four and six months previously. She thought the quarterly change was relatively significant, especially if the amount was \$150 million dollars per year or more.

Mr. Painter agreed there was some volatility and noted that the current swing was larger than normal. There was some smoothing, but a year with numbers so far above the

actuarial projection such as 2021 could move the numbers relatively quickly.

Senator von Imhof referenced Ms. Rodell's comments about a market downturn to a 2 percent to 3 percent return, and she thought the chart would adjust again.

Mr. Painter agreed.

Senator von Imhof dovetailed on Senator von Imhof's comment and hoped the state did not make the same mistake twice.

Co-Chair Stedman thought that clearly the state was underfunding the state's pension plan in the end of the 1980's and in the 1990's, and the state was paying the price currently. He cautioned the committee to take the numbers with a grain of salt and reexamine the figures in February or March. He discussed running sensitivity tables with the numbers. He hoped that with \$65 million in budgetary reductions in the current year the legislature could continue with advanced shrinkage of the unfunded liability and not make any historical mistakes such as were made in the 1990's.

Mr. Painter addressed slide 8, "Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300 FY25, 50% of POMV PFD FY26+," with two bar graphs. The first depicted a "stair-step" PFD and no other policy changes. In FY 22 and FY 23, there was an \$1,100 PFD, in FY 24 there was a \$1,200 PFD, in FY 25 there was \$1,300 PFD, and starting in FY 26 it went to the 50/50 formula. The scenario showed deficits in FY 21, FY 22, and FY 23, and then a roughly balanced budget in FY 24 and FY 25, and when the 50/50 POMV kicked in there would be a \$700 million deficit. He noted that the scenario assumed no further revenue replacement would be used from American Rescue Plan Act (ARPA) funds. He noted that the overdraw in FY 23 could probably be avoided if the state used \$250 million in ARPA funds as it had in the current year.

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Mr. Painter turned to slide 9, "Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300 FY25, 50% of POMV PFD FY26+," which showed two graphs depicting the same modeling scenario on the previous page, with the actual returns from FY 00 to FY 08 instead of using the Callan forecast. The

returns would include the "dot-com bust" and some negative market performance in the early years. He noted that compared to the previous scenario, the budget looked a little worse and showed a \$780 million deficit in FY 26. In the scenario, the ERA dropped before recovering after the recession period. He noted there was worse performance in the later years due to factoring in the historical recession.

Mr. Painter spoke to slide 10, "Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300 FY25, 50% of POMV PFD FY26+," which showed two bar graphs depicting the same scenario, but with building in the actual returns from FY 09 to FY 17. He characterized the depiction as an "extreme stress test," as it incorporated the single worst year of the fund's history (FY 09), which was the only year in which there was negative statutory net income. There was recovery in the following years. The scenario showed deficits throughout the period, with the FY 26 deficit being close to \$900 million.

Senator von Imhof considered slides 8,9, and 10, and wanted to clarify that Mr. Painter was modelling the same assumptions with only a change in returns.

Mr. Painter agreed.

Senator von Imhof noted that slide 8 showed the highest returns based on Callan's forecast, while the other slides used actual returns. She thought in all three of the other scenarios, the model "breaks" and would require either an ERA draw or taxes.

Mr. Painter agreed that if there were no policy changes, the scenarios would show the deficits were large enough to have to overdraw the ERA.

Co-Chair Bishop added that there could also be cuts implemented.

Mr. Painter agreed that there could be other policy choices such as taxes or cuts, but the scenarios reflected nothing but an ERA overdraw to cover the deficit.

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Senator Hoffman mentioned the 50/50 provision discussed by Co-Chair Stedman, and thought it would be incumbent upon the legislature to see what revenues were needed. He mentioned the difference between the stair-stepped plan versus the bridge funding discussed by the committee at an earlier meeting.

Senator Hoffman added that he thought the end result was that both of the plans called for a 50/50 payout in dividends for the people of Alaska.

Mr. Painter displayed slide 11, "Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300 FY25, 50% of POMV PFD FY26+," which showed what would happen with the same PFD scenario, with the addition of \$700 million of new revenue starting in FY 26 to support the PFD going to the 50/50 plan. The scenario resulted in roughly balanced budgets in the period examined.

Co-Chair Stedman commented that "one man's revenue was another man's taxes." He thought there should be a footnote to indicate that new revenue could be increased taxes or budget cuts, or a combination of both.

Co-Chair Bishop considered the \$700 million in new revenue and referenced a report from the Bicameral Permanent Fund Working Group. He thought there could be room for \$250 worth of budget cuts, which would lower the revenue number.

Senator von Imhof expressed that all modelling was generally two-dimensional. She thought the economic consequences of taking \$700 million out of the economy was missing from the picture. She pondered the effects of taking funds out of the economy and replacing them with a dividend. She referenced the recent census and population decline. She was concerned about continuing the trend.

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Mr. Painter turned to slide 12, "Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300 FY25, 50% of POMV PFD FY26+; \$700M New Revenue FY26+," which showed the same scenario but with the FY 00 to FY 08 returns. He noted reduced revenue starting in FY 24. The model showed \$700 in new revenue and a roughly balanced budget in FY 26 and beyond, but instead of generating surpluses the budget

stayed roughly balanced. The model showed the ERA dip but balance in later years.

Mr. Painter showed slide 13, "Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300 FY25, 50% of POMV PFD FY26+; \$700M New Revenue FY26+," which showed the same policy scenario but using FY 09 to FY 17 returns. With the larger drop to the Permanent Fund, the deficits persisted even with new revenue. There would be deficits through FY 27, then roughly balanced beyond that time. In contrast to the models on other slides, there was overdraws from the ERA to meet the deficit in several years, even once the new revenue kicked in.

Co-Chair Stedman thought that the slide was a reminder that the timeframe of FY 09 to FY 17 was the largest recession relative to the great depression. He hoped it was most likely the worst recession the state would ever see.

Co-Chair Bishop was hoping one of the more senior members would discuss history and a time in 2009 and 2010 when the legislature did not know if it could pay a dividend.

Co-Chair Stedman recalled that there was a time when there was a substantial budget reduction. He recalled there was significant concern by committee members at the time that there would not be funds to pay a dividend. He relayed that some members felt that the Permanent Fund actively turned over the portfolio to create realized returns and income to produce a dividend for the people. He suggested the current and proposed statutes ensured that even if the Permanent Fund had a significant decrease in value, there would still be a payout based on a percentage of the five-year lookback.

Co-Chair Bishop thought the goal of the legislature was to ensure that the same problem never happened again and to move forward with prudence.

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Mr. Painter spoke to slide 14, "Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300 FY25, \$1,300 PFD growing with inflation FY26+ Callan forecast for returns," which showed the scenario with the stair-stepped PFD amounts but including the result of no revenue coming resulting in a dividend formula of \$1,300 growing with inflation rather

than the 50/50 calculation. With the Callan returns factored in, the scenario showed a budget surplus of \$176 million starting in FY 25 and growing in future years. There would be no need for ERA overdraws in future years.

Mr. Painter turned to slide 15, "Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300 FY25, \$1,300 PFD growing with inflation FY26+ FY00-08 Returns," which showed the same policy scenario but including actual returns from FY 00 to FY 08. There was a similar pattern in the ERA, with no overdraws, but with surpluses that were a bit smaller than in the previous scenario.

Mr. Painter showed slide 16, "Fiscal Model: \$1,100/person PFD FY22-FY23, \$1,200 FY24, \$1,300 FY25, \$1,300 PFD growing with inflation FY26+ - FY09-17 Returns," which showed similar return scenarios as the previous slides. The scenario showed persistent deficits for a longer period. The scenario still balanced the budget and showed surplus at the end of the modelling period, but in the meantime the ERA would vanish in FY 25 due to some of the overdraws to get through the years. Even with the \$1,300 PFD in the scenario, the result was over-draws.

Senator von Imhof thought that the most recent model did not show much room for inflation, capital expenditures, and deferred maintenance. She thought the scenario considered the governor's assumptions for oil production volume for the next eight to ten years. She asked if the recent court decision and permit for new oil production in Willow materially impacted the potential volume estimates for the future.

Mr. Painter thought the permit would have some impact. He noted that DNR applied an assumption of risk when doing a forecast for any new production. He thought the impact of the court decision was not as great as if DNR had assumed the production was going forward as originally projected.

Senator von Imhof asked if the scenario modelled the Permanent Fund, but not revenue, which was about 25 percent to 30 percent of the state's income. She thought it might make sense to model high, medium, and low revenue estimates, which could materially pile on the deficits.

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Senator Wilson asked about slides 11 through 13, which discussed new revenue. He mentioned some contingency language in a bill in committee and asked if additional draws from the ERA would be considered new revenue.

Mr. Painter hoped the contingency language would clearly define "new revenue." It was possible to use language to stipulate that new revenue must consist of whatever mix the legislature preferred. He emphasized that LFD would prefer not to be in the position of having to try to interpret legislative intent. Rather, LFD would prefer that in crafting the language, the legislature make it clear if the overdraw of an ERA would count as new revenue or not.

Senator Wilson asked about LFD's current interpretation of the language.

Mr. Painter was not sure how to interpret the language currently. He noted that the higher draw, because it was ongoing, would not really affect the years in which the dividend would be higher in the first couple of years. He thought the language was ambiguous at best and encouraged members to clarify the language.

Senator Wilson considered the scenarios being presented and thought starting with the 50/50 scenario from the beginning of the scenario would show good faith to the people of Alaska. He wanted the committee to consider the idea.

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Co-Chair Stedman wanted to offer some clarity on the issue. He thought it was a far stretch to overdraw the Permanent Fund and classify it as new revenue. He thought it was essential to be clear when discussing new revenue, which he considered to be tax collections, advanced oil price or volume, or budget reductions. He mentioned that it had been difficult to bring the operating budget down since 2015. He doubted that there would be \$200 million in reductions that would stick. He stated that the committee would be working with the issue of new revenue.

Co-Chair Bishop thought it was necessary to ask the administration if it was going to continue to be agnostic towards taxes. He thought without taxes none of the plans would work.

Co-Chair Stedman wanted to clarify that there was no language being considered in SB 53 that would put the proposed changes to the Permanent Fund into the constitution. He thought it was up to future legislatures to make adjustments to the formula. He acknowledged the unknown future markets and stressed the importance of flexibility to adjust to current economic conditions. He thought the bill would be a starting point.

Co-Chair Bishop thanked Mr. Painter for his presentation.

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ADJOURNMENT

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The meeting was adjourned at 3:07 p.m.