

SENATE FINANCE COMMITTEE
THIRD SPECIAL SESSION
September 12, 2021
2:04 p.m.

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CALL TO ORDER

Co-Chair Bishop called the Senate Finance Committee meeting to order at 2:04 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

Erin Shine, Staff, Senator Click Bishop.

SUMMARY

SB 53 PERM FUND; ADVISORY VOTE

SB 53 was HEARD and HELD in committee for further consideration.

#sb53

SENATE BILL NO. 53

"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 an advisory vote on the permanent fund; providing for an effective date by repealing the effective date of sec. 8, ch. 16, SLA 2018; and providing for an effective date."

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Co-Chair Stedman MOVED to ADOPT the committee substitute for SB 53, Work Draft 32-GS1693\W (Nauman, 9/11/21).

Co-Chair Bishop OBJECTED for discussion.

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ERIN SHINE, STAFF, SENATOR CLICK BISHOP, discussed the committee substitute (CS). The CS would replace the current Permanent Fund Dividend (PFD) formula with a "stepped up" formula for a \$1,100 PFD in FY 22 and FY 23, a \$1,200 PFD in FY 24, a \$1,300 PFD in FY 25, and a \$1,300 PFD adjusted for inflation starting in FY 26. The CS also provided conditional language to pay for a 50 percent of the percent of market value (POMV) PFD if \$700 million of new revenues were enacted by December 15, 2024. The stepped approach and revenues outlined in the CS removed the need for the 1.5 percent overdraw of the Earnings Reserve Account (ERA) and was no longer in the proposed version of the bill.

Ms. Shine explained that there were multiple technical and conforming changes in the CS compared to the version of the bill that had come from the Judiciary Committee due to the difference in when the 5 percent POMV was enacted.

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Ms. Shine discussed the Sectional Analysis (copy on file):

Section 1 Legislative Intent

Establishes the following legislative intent to:

- (1) Implement the recommendations of the 2021 Comprehensive Fiscal Plan Working Group; and
- (2) Allow for adequate time to debate, analyze, and implement the revenue measures and cost reductions required for the long-term financial stability of the state.

Section 2 AS 37.13.140

- Amends AS 37.13.140(a) to delete language that describes a formula to determine the amount of income of the fund that is available for distribution.

- Provides that the amount available for appropriation from the earnings reserve account is 5% of the average market value of the fund for the first five of the preceding six fiscal years including the fiscal year just ended.

- Amends AS 37.13.140(b) to clarify that the amount available for appropriation from the earnings reserve account may not exceed the balance in the earnings reserve account.

Section 3 AS 37.13.145(b)

Amends AS 37.13.145(b) to provide that the amount appropriated each year from the earnings reserve account to the dividend fund (AS 43.23.045) is as follows:

- (1) \$1,100 in fiscal year 2022
- (2) \$1,100 in fiscal year 2023
- (3) \$1,200 in fiscal year 2024
- (4) \$1,300 in fiscal year 2025
- (5) \$1,300 adjusted for inflation each fiscal year after fiscal year 2025 by
 - (A) computing the Consumer Price Index for the two previous calendar years
 - (B) computing the percentage change between the first and second calendar year averages; and
 - (C) applying that rate to the value of the dividend paid for the fiscal year just ended.(Section 9 provides a cap of 50 percent of the percent of market value)

Section 4 AS 37.13.145(b) Conditional Effect (Section 14)

Amends AS 37.13.145(b) to provide that of the amount appropriated each year from the earnings reserve account under AS 37.13.140(b):

- (1) 50 percent may be appropriated to the dividend fund for dividends and
- (2) 50 percent may be appropriated to the general fund.

Section 5 AS 37.13.145(c)

Amends AS 37.13.145(c) to authorize an appropriation, after the appropriation to the dividend fund (AS 37.13.145(b)) and the general fund (AS 37.13.145(e)), to the principal of the permanent fund for inflation proofing.

Section 6 AS 37.13.145(c) Conditional Effect (Section 14)

Amends AS 37.13.145(c) by removing the reference to AS 37.13.145(e) to conform to changes in section 13.

Section 7 AS 37.13.145(d)

Amends to clarify that the permanent fund income earned as a result of the State v. Amerada Hess case is not available for appropriation to the dividend fund or the principal and that it shall be deposited into the capital income fund.

Section 8 AS 37.13.145(d) Conditional Effect (Section 14)

Amends AS 37.13.145(c) by removing the reference to AS 37.13.145(e) to conform to changes in section 13.

Section 9 AS 37.13.145(f)

- Amends AS 37.13.145(f) to limit the appropriation from the earnings reserve account to the dividend fund (AS 37.13.145(b)) so that it may not exceed 50 percent of the amount available for appropriation under AS 37.13.140(b)
- Limits the combined total for appropriation from the earnings reserve account to the dividend fund (AS 37.13.145(b)) and the appropriation from the earnings reserve to the general fund (AS 37.13.145(e)) to the amount available for appropriation under AS 37.13.140(b).

Section 10 AS 37.13.300(c)

Amends to clarify that the net income of the mental health trust fund is not included in the computation of the amount available for appropriation from the permanent fund earnings reserve account under AS 37.13.140(b).

Section 11 AS 37.14.031(c)

Amends to clarify that the Alaska Permanent Fund Corporation shall calculate annually the net income of the mental health trust fund according to generally accepted accounting principles and excluding any unrealized gains or losses.

Section 12 AS 43.23.025(a)

Amends to state that the legislature places money in the dividend fund by appropriation.

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Ms. Shine continued to outline the Sectional Analysis:

Section 13 AS 37.13.145(e) and (f) Conditional Effect (Section 14)

Repeals AS 37.13.145(e) and (f) which relate to total appropriations from the earnings reserve.

Section 14 Conditional Effect

Provides a conditional effect for sections 4, 6, 8, and 13 of this act to take effect only if, by December 15, 2024, the commissioner of revenue and the director of the legislative finance division jointly agree, and notify the revisor of statutes before December 15, 2024, that revenue measures anticipated to generate at least \$700 million of new annually recurring general fund revenues, when compared to annual revenue generated from the statutes as they read on June 30, 2021 have been passed by the legislature and enacted into law.

In this section "general fund revenue" does not include revenue from the permanent fund.

Section 15 Conditional Effective Date

Provides a July 1, 2025 effective date for sections 4, 6, 8, and 13, if the requirements outlined in section 14 have been met.

Section 16 Effective Date

Except for section 15, provides an immediate effective date under AS 01.10.070(c),

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Co-Chair Stedman looked at page 7 of the CS regarding the "conditional effect" and stressed that the measures to generate revenue would be new annual reoccurring General Fund revenue. He referenced section C on page 7, line 23, which made clear that General Fund revenue did not include revenue from the Permanent Fund.

Co-Chair Bishop asked if the members had questions. He noted that the director of the Legislative Finance Division was available for questions.

Senator Wielechowski noted that in Section 3 it stated that the legislature "may appropriate funds." He asked if the legislature could choose to appropriate for a smaller dividend under the proposed CS.

Ms. Shine understood that the legislature could appropriate any amount for the PFD, as the statute stipulated currently. She referenced an Alaska Supreme Court decision in the case of Wielechowski v. State of Alaska that indicated the legislature's use of Permanent Fund income is subject to normal appropriation and veto budgetary processes.

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Senator Wielechowski asked whether there was contemplation of a constitutional amendment to go along with the proposed bill.

Ms. Shine replied that the CS did not contemplate tying the statute change to constitutional amendment. She knew that the previous version of the bill had a conditional affect that tied the legislation to a constitutional amendment being passed or not passed by a vote of the people. She noted that the CS did not preclude the legislature from passing a constitutional amendment in conjunction with the legislation.

Senator Wilson queried whether there was a plan for deficits. He wondered if the funds would be paid out of the Constitutional Budget Reserve or the ERA. He asked if there was language in the bill that addressed the concern.

Ms. Shine responded that the CS did not identify deficits within the bill itself. She thought each legislature would have to weigh each expenditure as it approached the operating budget process.

Co-Chair Stedman recalled that under the proposed bill the appropriation for the PFD would go from the ERA to the dividend fund and then to the dividend process.

Ms. Shine agreed.

Senator von Imhof believed that Section 2 of the proposed CS described that the appropriation would not exceed the 5 percent POMV draw. She noted that if the source of the funds was the ERA, the amount was capped at 5 percent.

Ms. Shine agreed. She cited that AS 37.13.145 (e) and (f) provided caps as to what could be transferred from the ERA to the dividend fund and the general fund. The provisions required that the draw from the ERA stay within the 5 percent POMV draw in a year.

Senator Wilson noted that the provisions would not stop the legislature from using a different fund source to do a transfer in order to pay out dividends.

Ms. Shine agreed and noted that the legislature had the power of appropriation. She noted that the bill proposed that the PFD would come from the ERA.

Co-Chair Bishop WITHDREW his OBJECTION. There being NO further OBJECTION, it was so ordered. The CS for SB 53 was ADOPTED.

SB 53 was HEARD and HELD in committee for further consideration.

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RECESSED

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ADJOURNMENT

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The meeting was adjourned at 4:28 p.m.