ALASKA STATE LEGISLATURE
SENATE JUDICIARY STANDING COMMITTEE
September 8, 2021
1:32 p.m.

MEMBERS PRESENT

Senator Roger Holland, Chair
Senator Shelley Hughes
Senator Robert Myers
Senator Jesse Kiehl

MEMBERS ABSENT

Senator Mike Shower, Vice Chair

OTHER LEGISLATORS PRESENT

Representative James Kaufman
Senator Lora Reinbold

COMMITTEE CALENDAR

SENATE JOINT RESOLUTION NO. 301
Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit; and relating to the budget reserve fund.

- HEARD & HELD

SENATE JOINT RESOLUTION NO. 302
Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund, creating the sustainable dividend account and power cost equalization account in the permanent fund, and relating to a dividend for state residents.

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SJR 301
SHORT TITLE: CONST. AM: APPROP LIMIT
SPONSOR(s): SENATOR(s) MYERS

09/01/21 (S) READ THE FIRST TIME - REFERRALS

09/01/21	(S)	JUD, FIN
09/03/21	(S)	JUD AT 1:30 PM BUTROVICH 205
09/03/21	(S)	Heard & Held
09/03/21	(S)	MINUTE(JUD)
09/08/21	(S)	JUD AT 1:30 PM BUTROVICH 205

BILL: SJR 302
SHORT TITLE: CONST. AM: PFD/SUSTAINABLE DIVIDEND/PCE
SPONSOR(s): SENATOR(s) BEGICH

09/01/21	(S)	READ THE FIRST TIME - REFERRALS
09/01/21	(S)	JUD, FIN
09/08/21	(S)	JUD AT 1:30 PM BUTROVICH 205

WITNESS REGISTER

QUINN TOWNSEND, Policy Manager
Alaska Policy Forum
Anchorage, Alaska
POSITION STATEMENT: Testified in support of a constitutional spending limit during the hearing on SJR 301.

VIOLET APALAYAK, representing self
Dillingham, Alaska
POSITION STATEMENT: During the hearing on SJR 301, stated support for protecting the permanent fund into perpetuity.

DON DYER, President
Mat-Su Economic Development Corporation
Palmer, Alaska
POSITION STATEMENT: Testified in support of SJR 301.

MERCEDES COLBERT, Staff
Senator Tom Begich
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Delivered a PowerPoint and sectional analysis of SJR 302 on behalf of the sponsor.

CONOR BELL, Fiscal Analyst
Legislative Finance Division
Legislative Agencies and Offices
Legislative Affairs Agency
Juneau, Alaska
POSITION STATEMENT: Answered questions during the discussion of SJR 302.

EMILY NAUMAN, Attorney
Legislative Legal Services
Legislative Affairs Agency
Juneau, Alaska
POSITION STATEMENT: Answered questions during the discussion of SJR 302.

CURTIS THAYER, Executive Director
Alaska Energy Authority
Department of Commerce, Community & Economic Development
Anchorage, Alaska
POSITION STATEMENT: Testified on behalf of the administration during the discussion of SJR 302.

ACTION NARRATIVE

1:32:40 PM
CHAIR ROGER HOLLAND called the Senate Judiciary Standing Committee meeting to order at 1:32 p.m. Present at the call to order were Senators Myers, Hughes, Kiehl, and Chair Holland.

SJR 301-CONST. AM: APPROP LIMIT

1:33:25 PM
CHAIR HOLLAND announced the consideration of SENATE JOINT RESOLUTION NO. 301 Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit; and relating to the budget reserve fund.

1:33:43 PM
CHAIR HOLLAND recognized Senator Reinbold's presence.

CHAIR HOLLAND opened public testimony on SJR 301.

1:34:16 PM
QUINN TOWNSEND, Policy Manager, Alaska Policy Forum, Anchorage, Alaska, read the following written testimony:

> Chair Holland and members of the Judiciary Committee, thank you for the opportunity to testify today. I am Quinn Townsend testifying on behalf of Alaska Policy Forum.
>
> Alaska has had a history of high spending during times of economic growth that has led to fiscal problems today. One mechanism to reign in the tendency to

increase spending when times are good is through an appropriation limit, or spending cap. Implementing an effective spending cap will help stabilize future state budgets and can encourage private sector growth.

Economic literature shows that a spending cap is beneficial in curbing the growth of state spending, as long as it is structured correctly. There are four main aspects that are integral to a well-designed cap: how it is enforced, what it limits, how it limits spending growth, and how it can be overridden.

1:35:15 PM
MS. TOWNSEND continued:

First, how should a spending cap be enforced? To be effective, limits need to be constitutional rather than statutory. Constitutional limits are much more resilient to the ups and downs of politics than statutory limits. This means that constitutional spending caps are more binding than statutory constraints.

Second, what should a spending cap limit? Ineffective spending caps allow for workarounds and loopholes, such as only including appropriations from tax revenues. Instead, the base of spending limited by the cap needs to be broad. All state expenditures for a fiscal year should be covered, not just budgeted general revenue fund items. This includes fee- and user charge-based activity.

Third, how does an effective spending cap limit the growth of state spending? Economic literature has demonstrated that the most effective spending cap grows by population and inflation rather than personal income or another economic measure. However, that literature also acknowledges that Alaska's economy is unique and typically excludes the state from national analyses. Therefore, using a running average of GDP minus government services to reflect Alaska's private sector may also be an effective growth rate, even though it is not a mechanism that other states typically use.

1:36:42 PM

Fourth, what are the ways to override a spending cap? An effective spending cap should be extremely difficult to override and have few exceptions, such as disasters. To allow spending beyond the limit should require either a vote of the people, a supermajority legislative vote, or even both.

Alaska needs an effective limit on state spending. Every dollar spent by the state is a dollar not being used by the private sector. Alaska also needs a strong private sector, especially now as Alaskans are recovering from the economic effects of the pandemic. Alaska Policy Forum encourages the implementation of an effective constitutional appropriation limit.

Again, thank you for the opportunity to testify.

1:38:39 PM
At ease

1:39:00 PM
CHAIR HOLLAND reconvened the meeting.

1:39:18 PM
VIOLET APALAYAK, representing self, Dillingham, Alaska, stated that late Governor Jay Hammond's wife, Bella, was from the region. She referred to his book, *Diapering the Devil: How Alaska Helped Staunch Befouling by Mismanaged Oil Wealth: A Lesson for Other Oil Rich Nations*. She offered her support for issues other than SJR 301. She offered support for restriction of disposal sites under the Clean Water Act, Section 404 (c), and requiring Alaska Native cultural courses in Alaska history curriculum. She recalled that then Governor Hammond suggested that tax revenue from natural resources be placed in a conservatively managed account and issuing a new dividend earnings stock. In closing, she stated support for protecting the permanent fund into perpetuity.

1:42:17 PM
DON DYER, President, Mat-Su Economic Development Corporation, Palmer, Alaska, stated support for SJR 301. He offered his belief that the structure is based on common sense and practical ways of accomplishing things to provide the right budget controls in Alaska. It will also help drive economic development. He emphasized elements, including the five-year rolling average, which can be adjusted annually but is capped at 14 percent. He stated the spending cap could be a boon for

investment in Alaska because it would provide predictability to Alaska's budget and it guarantees constitutional budget controls. He stated support for basing the cap on GDP.

1:44:42 PM
CHAIR HOLLAND closed public testimony on SJR 301.

[SJR 301 was held in committee.]

SJR 302-CONST. AM: PFD/SUSTAINABLE DIVIDEND/PCE

1:45:02 PM
CHAIR HOLLAND announced the consideration of SENATE JOINT RESOLUTION NO. 302 Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund, creating the sustainable dividend account and power cost equalization account in the permanent fund, and relating to a dividend for state residents.

1:45:49 PM
MERCEDES COLBERT, Staff, Senator Tom Begich, Alaska State Legislature, Juneau, Alaska, said the intent is to present SJR 302 as an option for discussion. She stated that Senator Begich is open to other ideas but keeping the same goals in mind. She reviewed the goals of SJR 302 on slide 2:

- o Remove the risk of unstructured draws from the Earnings Reserve Account;
- o Resolve the tension of choosing between spending on services versus dividends;
- o Constitutionally protect the Permanent Fund Dividend and PCE;
- o Invest our state savings with the Permanent Fund to generate more earnings; and
- o Help Alaska households and state lawmakers budget for a sustainable PFD amount indefinitely.

1:47:05 PM
MS. COLBERT presented the sectional analysis for SJR 302, which read:

> **Section 1**: Amends Article IX, section 15, of the Alaska State Constitution, redesignating this section as 15(a):
>
> - Changes the existing language to clarify that 25 percent of all earnings of the Alaska Permanent Fund are placed into the principal.

- Creates the Sustainable Dividend Account and the Power Cost Equalization Account within the Permanent Fund.
- The income-producing investments of the Permanent Fund and these two new subaccounts shall be designated by law.
- Requires the principal and income earnings of the fund and the two new subaccounts to be kept in the fund or subaccount.
- The legislature may appropriate from the fund and accounts only as provided in this section of the state constitution.

1:48:29 PM
MS. COLBERT paraphrased the sectional analysis, Section 2 which read:

> **Section 2:** Creates new subsections 15(b-e) under Article IX, pertaining to the percent of market values of the Permanent Fund, Sustainable Dividend Account, and the Power Cost Equalization Account:
>
> b. The legislature may appropriate up to 4.5 percent of the average market value from the Alaska Permanent Fund to the General Fund each fiscal year. This subsection protects the Sustainable Dividend and Power Cost Equalization Accounts from general fund spending.
>
> c. The legislature shall appropriate 5 percent of the average market value of and from the Sustainable Dividend Account each fiscal year to pay dividends to eligible Alaska residents.
>
> d. The legislature shall appropriate 5 percent of the average market value of and from the Power Cost Equalization Account each fiscal year. This appropriation shall be used for the payment of energy subsidies, capital improvements to energy infrastructure to rural communities, community assistance payments, and renewable energy projects.
>
> e. Establishes the average market value of the Permanent Fund, the Sustainable Dividend and Power Cost Equalization Accounts. The average market value of the whole fund includes the value of the

Sustainable Dividend and Power Cost Equalization Accounts. The value is calculated using the average value for the preceding five fiscal years, excluding the fiscal year that had just ended. The value of the whole fund and the subaccounts shall be calculated on the last day of the fiscal year.

1:50:45 PM

MS. COLBERT paraphrased the sectional analysis of SJR 302, Section 3, which read:

Section 3: Adds a new Section 18 under Article IX of the Alaska Constitution:

- Sets a minimum divided payment of $1,200 to eligible Alaska residents; and
- Requires the legislature to appropriate the amount necessary to meet the $1,200 dividend if the Sustainable Dividend Account does not have enough to provide for the $1,200 dividend on its own.

1:51:08 PM

Section 4: Adds a new Section 30 under Article XV of the Alaska Constitution, to establish transitional language for the Permanent Fund amendments above, and the establishment of the Sustainable Dividend and Power Cost Equalization Accounts:

a. On June 30, 2023, the balance of the Earnings Reserve Account shall be deposited into the Permanent Fund principal. This amount shall be the unencumbered balance of the account on Sept 30, 2022, or June 30, 2023, whichever is greater.

b. On June 30, 2023, the legislature shall appropriate from the Permanent Fund principal to the Sustainable Dividend Account the amount that would have been paid under the current statutory dividend formula from fiscal years 2017 through 2023. This amount transferred to the Sustainable Dividend Account includes the earnings and interest accrued during that time.

c. On June 30, 2023, the balance of the Power Cost Equalization Endowment Fund shall be deposited in the Power Cost Equalization Account within the Permanent Fund.

d. The revised and expanded Article IX Section 15 of the Constitution takes effect Fiscal Year 2024.

e. Provides transitional flexibility for determining by law the average market value of the Sustainable Dividend and Power Cost Equalization Accounts.

Section 5: This constitutional amendment shall appear on the general election ballot following passage of this legislation.

1:54:01 PM
MS. COLBERT explained that SJR 302 would require a two-thirds vote in each body, 14 members in the Senate and 27 members in the House, to pass the legislature before it would go to a vote of the people in the next general election.

1:54:35 PM
MS. COLBERT explained the $1,200 amount genesis, which was derived by using a rounded-calculated average not adjusted for inflation. It was based on information from the Permanent Fund Division's website. If one person received all 38 permanent fund dividends distributed from 1982 through 2020, the recipient would have received $45,419.41. By dividing that amount by 38 distributions, the average comes to $1,195.25, she said.

1:55:07 PM
SENATOR MYERS asked why it was not adjusted for inflation.

MS. COLBERT said she was unsure.

1:55:39 PM
SENATOR HUGHES commented that without inflation proofing, in 20 to 30 years the value would be equivalent to $600. She said $1,200 might seem fine to some, but $600 would seem very small to others.

1:56:00 PM
CHAIR HOLLAND said the first permanent fund dividend was $2,700.

1:56:14 PM
MS. COLBERT referred to slide 4 of the PowerPoint on SJR 302, titled "How does the Sustainable Dividend Account start at $10.9 Billion? She deferred technical questions to Legislative Finance.

MS. COLBERT paraphrased the following rationale used for the table on slide 4:

Slide 4 shows the assumptions used to arrive at the initial deposit of $10.9 Billion to create the Sustainable Dividend Account. She deferred to Legislative Finance to provide the details. This assumes the legislature will appropriate $1,000 PFDs in 2021 and 2022, per the accompanying SB 3003. She said:

- o We wanted to use the amount of money that was not paid out in PFDs since calendar year 2016 - which translates to FY2017 - the first year a dividend was paid out under the statutory formula.
- o The total return of the earnings that amount made is also factored in. Cumulatively, the amount that would have been paid out in 2016 through the projections of 2022 - PLUS the projected return on those investments with the funds staying in the earnings reserve - are pulled out of the Earnings Reserve to create the Sustainable Dividend Fund.
- o Interestingly, the amount of nearly $8.36 Billon that was not paid in dividends over time resulted in $2.58 Billion in more earnings in our savings.

1:58:12 PM
MS. COLBERT summarized the information on slides 5 and 6 of the PowerPoint on SJR 302 stating the following:

- **Slide 5** is a rough attempt to make sense of how the mechanisms of this drafted proposal would work. As a preface, I would note that Senator Begich would like to offer this discussion assuming new revenue generated from SB 3002 - which will be heard in Senate Resources tomorrow. This bill builds on existing revenue sources to generate $250 million revenue in FY24, so this number is used here on this slide.
  - o The new Sustainable Dividend Account and PCE Account are subaccounts of the Permanent Fund, that's why they're overlapping. The total value of these combined - which may add up to more than $85 billion come FY24? - are used to calculate the 4.5% percent of market value draw to the General Fund. This amount is estimated to be approximately $3.29 Billion.
  - o Meanwhile, the Spring 2021 Revenue forecast estimates approximately $2.1 Billion in UGF revenue outside of the POMV - add this to the

general fund, and approximately $250 million estimated in FY24 from SB 3002.
    - Note that because the PCE and Sustainable Dividend Accounts are still managed by the Permanent Fund Corporation, and are subaccounts of the overall fund, the definition of the "permanent fund dividend" remains the same.

2:00:33 PM

Slide 6 shows how the draws from the Sustainable Dividend Account and the PCE Account work. In practice, The Dividend Account and PCE account are separate from the Permanent Fund. That is, they can only be used for the purposes described in the constitutional amendment (remember, we can dedicate funds in the constitution).

- The 5 percent
- POMV from the PCE Account is estimated to be about $60 million to be used for the payment of energy subsidies, capital improvements to energy infrastructure to rural communities, community assistance payments, and renewable energy projects (Section 2 of the bill).
- The 5 percent POMV from the Sustainable Dividend Account is estimated to be $545 million. This pays for more than half the amount needed to meet the $1,200 PFD, but not all of it. Approximately $275 million would be needed to make up the difference, drawn from the General Fund. The Constitutional Amendment proposes that if the SDA is not enough to generate $1,200, then the legislature Shall appropriate the difference to meet that minimum - the language is most easily interpreted to mean, "not more than" $1,200, but could be amended.

2:02:14 PM

SENATOR MYERS noted that slide 6 indicated a five-percent POMV draw but SB 3003 indicates 4.5 percent. He asked why there were different draw rates.

MS. COLBERT answered that mathematical modeling showed there was too much of a draw on the permanent fund. The effective draw rate was closer to 6 percent. She offered to share the modeling with members. She stated that it created too much stress on the permanent fund so the POMV draw was reduced to 4.5 percent.

2:02:58 PM

SENATOR MYERS asked why it would not create too much stress on the sub-accounts.

MS. COLBERT deferred to Mr. Bell.

2:03:35 PM
CONOR BELL, Fiscal Analyst, Legislative Finance Division, Legislative Agencies and Offices, Legislative Affairs Agency, Juneau, Alaska, responded that the 4.5 percent POMV draw is based on a combination of the permanent fund principal, the Power Cost Equalization Account (PCE) and the Sustainable Dividend Account (SDA). However, the draw is coming from the principal of the permanent fund. He related his understanding that this would not put the same potential stress on the PCE or SDA accounts, which are subject to the 5 percent POMV structured draw.

2:04:26 PM
SENATOR HUGHES recalled Ms. Colbert mentioned a 6 percent effective rate draw. She highlighted that the current 5 percent POMV draw is an effective rate draw of 3.7 percent of the current fund balance. Even if the legislature were to draw an additional 1.5 percent to transition to fiscal certainty and a 50:50 PFD, it would result in a 5 percent effective rate draw. She said she was somewhat confused about how it could be a 6 percent effective rate draw.

MS. COLBERT answered that those projections are out of date since they were based on April models which were prepared before the new Callan projections and prior to the Fiscal Policy Working Group (FPWG) recommendations. She explained those were more conservative projections of the permanent fund returns using a different mechanism than the one in this bill. The 6 percent effective rate draw is out of date. She offered to provide a model based on a 5 percent draw.

2:06:11 PM
CHAIR HOLLAND imagined that a 5 percent draw was too high for the permanent fund, but this proposes three separate 5 percent draws: 5 percent of 1/8 of the fund for the SDA, 5 percent for the PCE, with another 5 percent draw from the corpus of the fund. He remarked it was ironic that under the 50:50 plan, the 5 percent POMV is split, with 50 percent funding the PFD and the remainder going to state services. He offered his view that 4.5 percent of 7/8 would be a huge amount going to the state. He offered his view that the figure should be less than 4.5 percent.

2:07:20 PM
SENATOR HUGHES referred to the red arrow on slide 6, which read $275 million. She directed attention to the gray oval on slide 5 that predicts new revenue from SB 3002 would bring in approximately $250 million. Essentially, SJR 302 would use public taxes to fund PFDs, which fundamentally was not the intent of the PFD program. She recalled Senator Hoffman recently stated during a floor debate that revenues are not to pay for PFDs but to pay for government. While she said she understood the desire to structure revenue with the PFD, thereby calling it a PFD, it basically taxes people to fund their PFDs. This is problematic, she said.

SENATOR HUGHES said she appreciated Senator Begich's efforts to bring forth a proposal. However, the FPWG spent considerable effort to develop a plan. In developing its recommendations, many FPWG members had to compromise. For example, her fiscal solution might have included cutting $1 billion from state government and adhering to the statutory PFD. Instead, she supported the FPWG's comprehensive proposal. She said moving forward with SJR 302 was similar to her putting forth her preferred solution.

2:09:36 PM
SENATOR HUGHES remarked that the legislature has been rehashing this issue for six years. The FPWG developed a proposal to help coalesce the legislature in order to solve the PFD issues. Thus, starting over by proposing something new that does not align with the FPWG recommendations is problematic. Further, taxing people to pay for a PFD is not what a PFD is in Alaskans minds, she said.

2:10:06 PM
SENATOR KIEHL agreed that Senator Begich's proposal was not in keeping with the FPWG's model. However, the FPWG's comprehensive solution recommended considering raising taxes to help pay for the PFD. Further, it recommended reducing services for some Alaskans to provide a PFD for all Alaskans. In fact, the PFD is a government check from the public treasury to all Alaskans. He acknowledged that the PFD program is an important one, which he supports.

SENATOR KIEHL highlighted that what interests him in Senator Begich's approach is that it directly requires the PFD to be a certain size, but it passes part of it through the general fund draw from the permanent fund until a separate account increases to the point that it will provide for that size of PFD. He pointed out that the general fund consists of investment earnings, taxes, rents and fees. He was unsure why this model uses a multistep approach rather than using one draw to the general fund to meet PFD obligations and other services.

2:12:09 PM
MS. COLBERT responded that Senator Begich worked on this bill early on, that his intent was not to overstep the FPWG's work. She acknowledged the substantial effort the FPWG made, including issuing a fantastic, comprehensive report that helped shape the current legislative conversations. In fact, many of the earlier economic models were redone based on the FPWG's baseline assumptions. Instead, she stated that SB 3001 and SJR 301 are concepts for the committee to consider. Since three members of the committee serve on the FPWG, there is no better committee to review them, she said. She stated that the sponsor is open to amendments and other concepts.

2:13:34 PM
MS. COLBERT, in response to Senator Kiehl's question of why SJR 302 does not have a 75:25 or 50:50 split, characterized it as removing the tension of government spending from the PFD itself. The sponsor's idea was to separate the choice of how to fund appropriations for troopers, ferries and other services from the PFD. She explained that creating a separate account within the fund would generate its own earnings to pay PFDs while another account would pay for government services. The committee certainly can adjust the figures, she said. This concept would create a separate account to disperse unpaid PFD earnings from 2016 to the present instead of splitting out the POMV by percentage.

2:15:32 PM
MS. COLBERT reviewed the impact to the general fund for a $1,200 PFD as shown by the graphs on slide 7. She explained that if the constitutional amendment obtains voter approval and SJR 302 becomes law, the graph shows that under the first year of distribution in FY 2024, it would be necessary to use additional general funds to pay a $1,200 dividend. The question remains as to how much and for how long it would be necessary to use general fund draws to fill in until the Sustainable Dividend Account (SDA) generates enough funds for the $1,200 PFD. Slide 7, prepared by Legislative Finance illustrates that it will take time for the SDA to generate sufficient income.

2:17:19 PM

SENATOR HUGHES asked by what year the SDA would generate sufficient income to cover the PFD. She referred to the chart that projected income from FY 2024 to FY 2040 but it fell short of achieving the $1,200 PFD.

2:17:37 PM
MR. BELL answered that it would become self-sustainable at some point but the 20-year projections are hypothetical. He predicted that based on Callan's projected returns of 6.2 percent, the structured draw would be around 4 percent of the prior year's fund balance. Further population growth was estimated at .5 or .6 percent, which is why it will take longer to reach $1,200 PFDs. However, using these assumptions, it would reach the threshold at some point, he said.

2:18:43 PM
SENATOR KIEHL related his understanding that Legislative Finance lacked sufficient time to perform the analysis. He asked if this approach was taken, what balance would be needed to provide a $1,200 PFD from the start.

MR. BELL offered to provide those figures after the meeting.

CHAIR HOLLAND stated that he could also report back later in the meeting if he obtained the figures earlier.

2:19:48 PM
MS. COLBERT described slide 8, which showed the Callan Returns for SJR 302 and SB 3002. She stated:

- **Slide 8** shows the Callan Returns for this constitutional amendment (its accompanying bill SB 3003). This assumes the Fiscal Plan working Group's basic baseline assumptions for spending, revenue forecasts, etc., as well as Callan's optimistic projections for the Permanent Fund's returns. The Principal grows over time, and the Sustainable Dividend Fund is sustainable - and sustained over time, as does the PCE Account.
- We do have projections and models by Legislative finance with both the Callan projections as well as the FY07-17 returns (which is the "stress testing" of the fund). I have those available by request.

2:20:52 PM

SENATOR MYERS asked whether any royalties from lease sales beyond the initial deposit into the SDA would be deposited into the SDF.

MS. COLBERT answered that royalties are not affected by the resolution.

SENATOR MYERS asked if the legislature could transfer funds from the permanent fund into the SDA.

MS. COLBERT deferred to Ms. Nauman.

2:22:39 PM
EMILY NAUMAN, Attorney, Legislative Legal Services, Legislative Affairs Agency, Juneau, Alaska, answered that SJR 302 does not allow any use of the permanent fund principal other than what is set out in the resolution. Thus, the short answer is no. The legislature would be free to appropriate funds into the SDA from other sources. The only income the SDA would generate will be based on the initial amount deposited.

2:23:23 PM
CHAIR HOLLAND asked if the SDA was inside or outside of the principal of the permanent fund.

MS. NAUMAN responded that the SDA fund would technically be part of the permanent fund. In response to a question, she confirmed that the SDA is part of the permanent fund, but it is accounted for separately.

2:23:58 PM
SENATOR HUGHES asked for the specific cite in SJR 302 that identifies the ERA fund transfer to the principal of the fund. She said the slides referred to "ERA/SDF". She asked if ERA funds could be moved to the SDA if the ERA is not folded into the principal of the permanent fund.

MS. NAUMAN responded that the language was in Section 4, Section 30 (a) [on page 2, lines 30 to page 3, line 5]. The balance of the ERA is deposited into the principal of the permanent fund. At that point, it would no longer be available for appropriation by the legislature, she said.

2:25:10 PM
At ease

2:25:43 PM

CHAIR HOLLAND reconvened the meeting. He offered that by his calculation it would take $16 billion to achieve a $1,253 PFD based on about 2 percent growth per year.

2:26:05 PM
SENATOR HUGHES asked Curtis Thayer to respond to the impact of the 5 percent draw on the current PCE needed for this year and projected into the future. She restated her question.

2:27:19 PM
CURTIS THAYER, Executive Director, Alaska Energy Authority, Department of Commerce, Community & Economic Development, Anchorage, Alaska, answered that currently AEA uses a 5 percent lookback to determine future PCE needs. He characterized it as a cascading flow, first to PCE and then to community assistance. Further, the current PCE program allows up to $25 million to be used for one of three items: the Bulk Fuel Revolving Loan Fund, powerhouses or the Renewable Energy Fund. He reported this has happened only twice in the past few years, including in this calendar year. The short answer is that the 5 percent [funding from earnings of the PCE Endowment Fund] rule is currently being used. It has been sufficient to not only sustain PCE but also provide for community assistance, and in good years to fund renewable energy and powerhouses in rural Alaska.

SENATOR HUGHES related her understanding that he was satisfied with the 5 percent.

MR. THAYER answered yes; that 5 percent [of the earnings of the PCE Endowment Fund's three-year average market value] has been sufficient in the past and he predicted that it would do so going forward.

2:28:43 PM
CHAIR HOLLAND referred to Section 2, paragraph (e) on page 2, lines 17-21 of SJR 302, which read:

> (e) The average market value of the fund, and each account in the fund, is the average value of the fund or account for the preceding five fiscal years, excluding the fiscal year just ended. The average market value of the fund includes the value of the sustainable dividend account and the power cost equalization account. The value of the fund and each account shall be calculated on the last day of the fiscal year.

SENATOR HOLLAND expressed concern that this language could be interpreted to mean four of the last five years. He asked if it was intended to be five of the last six fiscal years.

2:29:14 PM
MS. COLBERT answered yes. She deferred to Ms. Nauman to elaborate but agreed that the appropriations would be based on the average market value of the fund for the last five fiscal years.

2:29:41 PM
CHAIR HOLLAND expressed concern with the proposal in SJR 302. He stated that his preference was to continue to pursue SJR 6 with the 50:50 split.

[SJR 302 was held in committee.]

2:30:09 PM
There being no further business to come before the committee, Chair Holland adjourned the Senate Judiciary Standing Committee meeting at 2:30 p.m.