

HOUSE FINANCE COMMITTEE

May 4, 2023

10:35 a.m.

10:35:56 AM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 10:35 a.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair
Representative Neal Foster, Co-Chair
Representative DeLena Johnson, Co-Chair
Representative Julie Coulombe (via teleconference)
Representative Mike Cronk
Representative Alyse Galvin
Representative Sara Hannan
Representative Andy Josephson
Representative Dan Ortiz
Representative Will Stapp

MEMBERS ABSENT

Representative Frank Tomaszewski

ALSO PRESENT

Tim Grussendorf, Staff, Senator Lyman Hoffman, Co-Chair, Senate Finance Committee; Representative Louise Stutes, Sponsor; Glenn Haight, Commissioner, Commercial Fisheries Entry Commission; Tracy Welch, Executive Director, United Fishermen of Alaska.

PRESENT VIA TELECONFERENCE

Deven Mitchell, Executive Director, Alaska Permanent Fund Corporation; Pam Leary, Director, Treasury Division, Department of Revenue.

SUMMARY

HB 19 REGISTRATION OF BOATS: EXEMPTION

HB 19 was HEARD and HELD in committee for further consideration.

CSSB 98 (FIN)

AK PERM FUND CORP. & PCE ENDOWMENT FUND

CSSB 98 (FIN) was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the meeting agenda.

#sb98

CS FOR SENATE BILL NO. 98 (FIN)

"An Act requiring the Alaska Permanent Fund Corporation to manage the power cost equalization endowment fund; requiring the Alaska Permanent Fund Corporation to publish certain reports relating to the power cost equalization endowment fund; relating to the Alaska Permanent Fund Corporation's management and investment of the power cost equalization endowment fund; and providing for an effective date."

10:36:50 AM

TIM GRUSSENDORF, STAFF, SENATOR LYMAN HOFFMAN, CO-CHAIR, SENATE FINANCE COMMITTEE, provided a PowerPoint presentation titled "Senate Bill 98: Power Cost Equalization Fund Management," dated May 4, 2023 (copy on file). He relayed that the bill did not change the Power Cost Equalization (PCE) program but changed the management of the fund. He addressed slide 2 titled "What Does SB 98 Do:"

The Power Cost Equalization Endowment Fund has about \$1 billion. Currently, it is managed by the Department of Revenue.

S898 would transfer management to the Alaska Permanent Fund Corporation (APFC):

- The APFC would manage the money alongside their own assets.
- The PCE would be exactly as diversified as the Permanent Fund.
- (This is what they currently do for the Mental Health Trust fund.)

- Regular reporting to the legislature regarding asset value and income.

Mr. Grussendorf informed the committee that the fund will still be housed in the Alaska Energy Authority (AEA).

Mr. Grussendorf discussed slide 3 titled "Why Change it:"

Why change it?

- More diversity: the Dept. of Revenue's managers can only invest in stocks and bonds, and not the various alternative investments used by the Permanent Fund.
- More stability: the PCE fund has changed its earnings goals and investment allocation at least three times in the last four years.

oFund lost close to \$200 million in FY2022 (-16%)

- Less liquidity: managers moved much of the fund out of equities in early FY2021 expecting there would not be a "reverse sweep" at the end of that year and missed big market gains.

oPCE fund made 14% in FY 21, while the Permanent Fund made 29%. That premature liquidation may have cost the fund \$150 million.

oCourts later determined fund wasn't sweepable.

Mr. Grussendorf elaborated that the inception of the legislation transpired after an overview by the Department of Revenue (DOR) and by the APFC during a Senate Finance Committee hearing. The committee members were concerned over how the fund was managed and the limitations on investments by the current managers; DOR. They discovered that the answer was more diversity, more stability, and less liquidity. He explained that the Department of Revenue's managers could only invest in stocks and bonds and not the various alternative investments used by APFC.

[10:40:41 AM](#)

Mr. Grussendorf advanced to slide 4 titled "How would it change the PCE fund and program:"

It would not.

- The same 5% of fund value would be available each year to fund the programs described in statute.
- The same "waterfall" of priority would be funded:
 - 1.The PCE program itself
 - 2.Costs of managing the fund
 - 3.If the previous year's earnings are more than what is needed for #1 and #2, 70% of the remaining earnings may be used for:
 - 1.Community Assistance (up to \$30 million)
 - 2.Renewable Energy Grant Fund, Bulk Fuel Revolving Loan Fund, or Rural Power system upgrades (up to \$25 million)

Co-Chair Foster asked Mr. Grussendorf to review the sectional.

Mr. Grussendorf read the sectional analysis (copy on file):

Section 1: AS 37.13.310 gives the Alaska Permanent Fund Corporation (APFC) management of the PCE endowment fund and manage the fund with the same Investment objective and asset allocation that they currently have in place.

(b) Adds the power cost equalization endowment and its current reporting requirements to the Alaska Permanent Fund Corporation statute.

Section 2: AS 42.45.080(a) Makes the change in the PCE statute that the corporation will manage the fund under AS.37.13.310. by Creating a new section in article 2 management of other assets for the APFC to include the PCE fund.

Section 3: AS 42.45.0S0(c) reporting timing makes it clear that there is a lag when determining the value of the fund and earnings of the fund by using a June 30 verses July 1.

Section 4: conforming language changes Commissioner of Revenue with Corporation

Section 5: AS42.45.099 Definitions. Adds Corporation definition in the PCE statute.

Section 6 is repealed no longer necessary.

Section 7 adds transition language.

Section 8 is the effective date.

10:43:08 AM

Co-Chair Foster asked if the legislature wanted to add another category to the waterfall it would not be prohibited by the change made by the bill. He exemplified using excess earnings to help communities that were having difficulties with the scoring system for Village Safe Water (VSW). Mr. Grussendorf replied in the negative and added that it would not prohibit any changes from being made to the waterfall, which fell outside the scope of the bill.

Representative Hannan asked if the idea behind SB 98 had been contemplated in the past. Mr. Grussendorf replied that Senator Hoffman had contemplated the idea in the past, but it had not been offered until PCE had lost roughly \$200 million. Representative Hannan shared a concern regarding page 2 of the bill and the provision to diversify PCE exactly the same as the Permanent Fund. She elucidated that throughout the years, the PF had been managed using a more liberalized diversified portfolio, which provided the opportunity for larger gains but also the potential for larger losses. She remarked that APFC had invested in things like "Alaskan entrepreneurial endeavors" decided by its board. She inquired whether the investment decisions for PCE would be made entirely by APFC's board or if there were any sideboards against risk.

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Mr. Grussendorf answered that in his discussions with the Senators, they were comfortable with the way APFC managed the PF. He offered that the fund was consistent, and the track record of the corporation spoke for itself. He believed APFC management removed some of the politics out of the issue. He did not believe there would be a problem

for the PCE fund. He noted that PCE was well established and could withstand a down year or two and was designed to backfill in the good years. Representative Hannan indicated that currently the PCE portfolio had a fairly conservative asset allocation of stocks and bonds. She wondered if the fund would be "rebalanced" to the PF's asset allocation and how it would happen; slowly or immediately. Mr. Grussendorf believed APFC would manage the fund like its other assets. He deferred to the corporation for more detail.

Representative Ortiz referenced Mr. Grussendorf's statement that the fund would remain with the Alaska Energy Authority. He wondered what authority AEA had over PCE. Mr. Grussendorf responded that AEA would continue to manage the PCE program, and nothing would change. He delineated that the 5 percent of the fund would be distributed as needed through AEA and anything remaining would be redeposited into the PCE fund. The corporation would report to AEA on how it managed the fund, its balance, and the 5 percent amount.

[10:49:31 AM](#)

Representative Ortiz asked if there would be any change in management costs or expenses to the state if the change was made. Mr. Grussendorf responded that there would be an added expense due to DOR. He reported that they used some of the management fees for staffing and did not want to lose the individuals. The department wanted some state General Funds (GF) to backfill their losses.

Co-Chair Edgmon supported the bill and thought it was a smart move. In the prior year, the legislature adopted SB 243 [SB 234 - PWR Cost EQ: Raise, Endow Fund Investment, Chapter 39 SLA 22, 07/15/2022] that moved the fund from a traditional endowment management scheme of low risk and low return to the realm of the "prudent investor rule," which guided the PF and its asset allocation approach. He believed that SB 98 supported that action. He stated that the PCE endowment was a huge part of the energy portfolio for Alaska and needed to remain that way into the future. He underscored that it made sense to put PCE into the hands of APFC who when compared to other mammoth trust funds like the California Trust Fund, only lost 3.2 percent of its value. He reiterated that the bill was a good move especially in another high earning year. He thanked Senator Hoffman for bringing it forward.

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Representative Josephson recounted that in 2019 the governor did not support capitalized funds and believed that the funding should be approved each year. In addition, there had always been a concern that someone would try to reappropriate the funds in declining revenue years. He asked if the bill prevented those types of actions. Mr. Grussendorf replied in the negative. The fund was housed under AEA and was still available for appropriation. However, the PCE fund was determined as not sweepable. Representative Josephson acknowledged that there was a risk of reappropriation and supporters of the fund would need to remain hypervigilant. Mr. Grussendorf answered in the affirmative.

Co-Chair Foster noted that Representative Coulombe was online.

Representative Coulombe stated her support for the bill.

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Representative Stapp echoed comments made by Co-Chair Edgmon. He hoped the PCE's asset classes mimicked the Permanent Fund asset allocation. He supported the bill. He referenced a Department of Revenue fiscal note [FN2 (REV)]. He pointed to the management fee of \$2.5 million that was based on basis points. He noted that basis points ebbed and flowed, but the fiscal note was static in the outyears. He asked if the investment fees would be the same.

Mr. Grussendorf deferred the answer to APFC.

DEVEN MITCHELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION (via teleconference), responded that the fiscal note was partly due to the expectation there would be relatively modest short-term fluctuations in value. There would need to be modifications over time in contractual costs that would increase or decrease in a like manner.

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Representative Cronk supported the bill. He discussed the waterfall in the current program. He thought the first listing on the waterfall, Community Assistance and the second listing, Renewable Energy Grants were backwards. He

deduced that the purpose of PCE was to lower energy costs and also continue building anything that lowered costs. He believed that the state would want to do everything possible to reinvest in less expensive energy everywhere. He thought the renewable energy grants should be the first priority after paying PCE. He inquired how much was paid out in community assistance versus addressing the high cost of energy first. He was favorable to an answer in writing. Mr. Grussendorf responded that he had been present when the waterfall had been decided. He recounted that community assistance was universally popular when the waterfall provision was developed. At the time, PCE was in a period of high earnings, but the community assistance program shrank from \$180 million to \$60 million and even less. The program had to be back funded and was consistently short funded. The idea behind it being first on the waterfall was that excess PCE earnings could be shared because community assistance had been short funded.

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Representative Hannan directed her question to APFC. She supported the bill. She reiterated her question about the expected timeline it would take to rebalance and match the Permanent Fund asset allocations. Mr. Mitchell answered that rather than trying to transfer securities the corporation would ask DOR to liquidate the current assets and transfer the amount to the corporation. He elaborated that the corporation had annual cash flow needs and would incorporate the cash to its projections on how the money would be reinvested in the portfolio. Since money was fungible, it would not necessarily be specific PCE dollars that ended up in certain investments, but rather money that could be used to fulfill the percent of market value (POMV) transfer to the state. Representative Hannan asked how it would be determined that the full and true current value of PCE was transferred when liquidated. She wondered whether he was concerned. Mr. Mitchell was not concerned that any value would be lost. He elucidated that currently the fund was held in public securities and was in very liquid asset classes. He added that from a cash flow perspective in aggregate from the state, any cash allowed the corporation to retain investments at the corporation in similar asset classes across its portfolio, there was a cost setting effect to any liquidation that could occur. He summarized that the short answer was "no."

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Co-Chair Foster perceived that there was support for the bill and was inclined to move it from committee. He asked for a review of the fiscal notes. He referenced the DOR APFC fiscal impact note [FN3 (REV)] in the amount of \$60 thousand for auditing services and asked for comment.

Mr. Mitchell confirmed that APFC estimated the need for approximately \$60 thousand per year for financial audit services for the Fund.

Co-Chair Foster moved to the next fiscal impact note from DOR APFC in the amount of \$2.5 million for the management fees based on 25 basis points. He asked for further comment. Mr. Mitchell commented that the appropriation was for a combination of things that included external and internal managers adding up to the 25 basis points, which was an estimate that would not be exceeded. He added that if PCE experienced exceptional performance in the markets there would be an increased need for investment fees, however that would be a positive outcome.

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Co-Chair Foster turned to the fiscal impact note for DOR, Taxation and Treasury [FN1 (REV)] and read the analysis as follows:

SB 98 transfers the responsibility to manage the investments of the Power Cost Equalization Endowment Fund established in AS 42.45.070 from the Commissioner of Revenue to the Alaska Permanent Fund Corporation (APFC). The Power Cost Equalization Endowment Fund is currently budgeted to fund \$1.179 million towards Treasury's FY24 budget. The Treasury structure allows it to efficiently manage numerous funds at low cost. Transferring the Power Cost Equalization Endowment Fund to APFC will not reduce Treasury's budget because Treasury allocates all of its costs among the \$48 billion in state and retirement investment funds it manages. As such, transferring fund management from

the Treasury will result in increased funding from the general fund.

Mr. Mitchell deferred to DOR for comment on the fiscal note.

Co-Chair Foster noted that Pam Leary, Director, Treasury Division, Department of Revenue should speak to the fiscal note, and she was not available.

Mr. Grussendorf relayed that the \$1.1 million fiscal note was for the management of the fund and not for transfer costs. He delineated that DOR would not receive \$1.1 million in management fees from the PCE fund any longer and wanted to switch the fund source to Undesignated General Funds (UGF) even though they were no longer managing the fund.

[11:11:47 AM](#)

Representative Ortiz understood that there would be a consistent request of \$1.1 million UGF annually. He asked what the funding would go towards. Mr. Grussendorf responded that he was not certain of the purpose. He knew that there were DOR personnel who were paid out of the PCE investment fees. He deferred to DOR for further answer.

Co-Chair Foster decided to recess the meeting in order to request that the someone from the department address the fiscal note at the continued meeting.

[11:13:34 AM](#)

Representative Josephson had the same question as Representative Ortiz.

Representative Stapp echoed the prior comments. He supported moving the bill but wanted DOR to discuss the fiscal note.

Co-Chair Foster set an amendment deadline for 1:00 p.m. on the same day.

CSSB 98(FIN) was HEARD and HELD in committee for further consideration.

#hb19

HOUSE BILL NO. 19

"An Act relating to the registration of commercial vessels; and providing for an effective date."

[11:14:54 AM](#)

REPRESENTATIVE LOUISE STUTES, SPONSOR, introduced the bill. She read from prepared remarks.

Thank you, House Finance Co-Chairs, members of the committee.

For the record, Representative Louise Stutes, representing District 5, including Kodiak, Cordova, Seward, and many smaller coastal communities.

Thank you for the opportunity to present House Bill 19. House Bill 19 would exempt active commercial fishing vessels from duplicative registration requirements created by the passage of Senate Bill 92, the "derelict vessel bill", in 2018.

SB 92 aimed to provide State and local municipalities with a searchable database containing details of vessels and ownership. That database exists for commercial fishing vessels in the Commercial Fisheries Entry Commission (CFEC). The database is updated in real time and operators are required to register yearly. The database is publicly accessible, and the information is provided under penalty of perjury.

- The information includes:
 - the legal owner of the vessel and a contact person if not the same person as the applicant.
 - permanent and mailing address,
 - SSN,
 - phone numbers,
 - DOB, and
 - email address.

Members and the public can find copies of the relevant forms on BASIS. Further, House Bill 19 institutes an annual \$8 fee for documented, CFEC-registered vessels. Currently, vessels owners pay a \$24 fee to DMV. HB 19

waives the fee for those vessel owners who have paid the \$24 to DMV in the past two years. This is NOT an additional fee for commercial fishermen.

Representative Stutes interjected that currently documented fishing vessels were required to have both a CFEC and D sticker. The rationale for the requirement was to provide the state and local municipalities with a state-maintained database of who owns and operated vessels. She summarized that the legislation removed the requirement to obtain a DMV sticker if the vessel operator had a CFEC sticker. However, documented vessels without a CFEC sticker were still required to obtain a DMV sticker. She informed the committee that for the prior 4 years, in conjunction with the bill sponsor, the Department of Public Safety (DPS) had not enforced the dual sticker requirement.

Representative Stutes reviewed the sectional analysis (copy on file):

Section 1: Amends AS 05.25.055(i) to exempt U.S. Coast Guard (USCG) documented vessels with a valid license issued by the Commercial Fisheries Entry Commission (CFEC) from the requirement to register with the Division of Motor Vehicles (DMV).

Section 2: Adds new subsection (e) to AS 16.05.475 that requires CFEC to assess an \$8 registration fee for USCG documented vessels upon a renewal or issuance of a license beginning on January 1, 2024. This fee is in lieu of the current 3-year, \$24 registration or renewal fee collected by DMV. Adds new subsection (f) to AS 16.05.475 specifying that fees collected in subsection (e) will be accounted for as provided in AS 05.25.096(b), to be made available to the Department of Administration, the Department of Commerce Community and Economic Development, and the Department of Natural Resources.

Section 3: Adds a new section to uncodified law that requires CFEC to waive the \$8 registration fee for years that USCG documented vessels have already paid through the 3-year, \$24 registration fee with the DMV.
Section 4: Adds a new section to the uncodified law that makes Section 1 of this act retroactive to January 1, 2023.

Section 5: Establishes an immediate effective date for the remainder of the bill.

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Co-Chair Edgmon provided some historical context for the bill. He reported that the issue of derelict vessels was a longstanding issue in the state. With the passage of SB 92 [SB 92 - Vessels: Registration/Titles; Derelicts, Chapter 111 SLA 18, 10/11/2018], "the derelict vessel bill," in 2018, an oversight occurred resulting in duplicative registration. He believed that the bill was common sense especially in small communities with one small Division of Motor Vehicle (DMV) Office. The issue also created more complications for the commercial fishers. He characterized the issue as a "small oversight" and hoped that the committee passed the bill out of committee.

Co-Chair Johnson recalled hearing the bill the previous year. She asked about Coast Guard licensed vessels not licensed by CFEC. She asked for comment by the sponsor regarding allowing for other types of boats licensed by the Coast Guard.

Representative Stutes was unsure about the question. She explained that vessels registered by the Coast Guard had a federal registration. The bill created a state registration for vessels.

[11:24:31 AM](#)

GLENN HAIGHT, COMMISSIONER, COMMERCIAL FISHERIES ENTRY COMMISSION, understood the question to mean that all documented vessels would register with the CFEC. He thought that it would not be practical. He explained that when the CFEC licensed a vessel a metal plate was issued, and each subsequent year was given an updated decal to display. He furthered that for non-commercial vessels that were involved in other endeavors it would be difficult to distinguish for enforcement. The documented vessels that were not involved in commercial fisheries would continue to register with the DMV, which allowed for a state registration and accompanying data base.

Representative Stutes interjected that there was an effort to combine the CFEC database and DMV database into one.

Co-Chair Foster asked for closing comments.

Representative Stutes had received no opposition to the legislation.

TRACY WELCH, EXECUTIVE DIRECTOR, UNITED FISHERMEN OF ALASKA (UFA), related that UFA was in full support of the bill and viewed it as a "cleanup" measure.

HB 19 was HEARD and HELD in committee for further consideration.

#sb98

CS FOR SENATE BILL NO. 98(FIN)

"An Act requiring the Alaska Permanent Fund Corporation to manage the power cost equalization endowment fund; requiring the Alaska Permanent Fund Corporation to publish certain reports relating to the power cost equalization endowment fund; relating to the Alaska Permanent Fund Corporation's management and investment of the power cost equalization endowment fund; and providing for an effective date."

[11:27:06 AM](#)

Co-Chair Foster asked for a review of the DOR fiscal note.

PAM LEARY, DIRECTOR, TREASURY DIVISION, DEPARTMENT OF REVENUE (via teleconference), reviewed the fiscal note request of roughly \$1.2 million in UGF. She explained the reason for the change. She shared that the treasury efficiently managed a variety of funds at a low cost and by transferring the Power Cost Equalization Endowment Fund to APFC it would not decrease treasury's budget and would necessitate reallocating all of its costs. She furthered that because treasury had limited resources the division would need some UGF to fully fund the division. One less fund would not change its staffing requirements because of how efficiently the funds were managed.

Representative Ortiz asked for more detail on what Ms. Leary meant by cost reallocation related to the \$1.2 million annual need. He asked why the department needed the funding. Ms. Leary answered that the division's budget funded all of its staffing and if it managed one less fund, they still had the same costs that needed to be reallocated to other fund sources. She indicated that PCE was one of the larger funds and currently was charged 10 basis points

of the assets under management. A loss of the funding source meant the need to replace the funds with UGF. Representative Ortiz asked for verification that the department needed the funds in order to retain staff. Ms. Leary replied in the affirmative and related that the department still needed the same number of staff to manage all the other funds and its costs would not be reduced.

[11:30:34 AM](#)

Representative Stapp asked for clarity. He understood that the department currently took 10 basis points to manage its funds and deduced that the division would lose about \$1 billion under management. He wondered why she could not increase the basis points to 11 instead of requesting \$1.2 million UGF in perpetuity. Ms. Leary answered that the division's cost allocation plan was based on assets under management; a typical way to charge investing fees. She delineated that treasury's cost allocation plan had 2 components. First, the division allocated assets under management to all of its funds and certain endowment like funds were charged a minimum of 10 basis points. Many of the funding sources were GF and the division did have funding sources from funds like the Public School Trust and PCE, but other funds did not have other revenue sources besides UGF. There would be a relative increase to the amount charged to other funds but primarily UGF would carry the bulk of the lost funding.

[11:32:44 AM](#)

Co-Chair Foster asked if Ms. Leary was available to return at the 1:30 p.m. meeting and offered to accommodate the time she could be available.

CSSB 98(FIN) was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the schedule for the afternoon.

#

ADJOURNMENT

[11:34:05 AM](#)

The meeting was adjourned at 11:34 a.m.