

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

April 18, 2023

6:02 p.m.

MEMBERS PRESENT

Representative Ben Carpenter, Chair
Representative Jamie Allard
Representative Tom McKay
Representative Andrew Gray
Representative Cliff Groh

MEMBERS ABSENT

Representative Kevin McCabe
Representative Cathy Tilton

COMMITTEE CALENDAR

HOUSE BILL NO. 160

"An Act relating to the calculation of the amount available for appropriation from the Alaska permanent fund; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 160

SHORT TITLE: PERMANENT FUND CALCULATION

SPONSOR(S): WAYS & MEANS

04/14/23	(H)	READ THE FIRST TIME - REFERRALS
04/14/23	(H)	W&M
04/18/23	(H)	W&M AT 6:00 PM DAVIS 106

WITNESS REGISTER

ED KING, Staff
Representative Tom McKay
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: On behalf of the sponsor, the House Special Committee on Ways and Means, presented the PowerPoint, titled "HB 160 - REAL POMV."

KENDRA BROUSSARD, Staff
Representative Ben Carpenter
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: On behalf of the sponsor, the House Special Committee on Ways and Means, of which Representative Carpenter serves as chair, presented the sectional analysis for HB 160.

ACTION NARRATIVE

[6:02:56 PM](#)

CHAIR BEN CARPENTER called the House Special Committee on Ways and Means meeting to order at 6:02 p.m. Representatives Carpenter, Allard, McKay, Gray, and Groh were present at the call to order.

HB 160-PERMANENT FUND CALCULATION

[6:03:32 PM](#)

CHAIR CARPENTER announced that the only order of business would be HOUSE BILL NO. 160, "An Act relating to the calculation of the amount available for appropriation from the Alaska permanent fund; and providing for an effective date."

[Contains discussion of HJR 9.]

[6:04:00 PM](#)

ED KING, Staff, Representative Tom McKay, Alaska State Legislature, on behalf of the sponsor, the House Special Committee on Ways and Means, presented the PowerPoint, titled "HB 160 - REAL POMV" [hard copy included in the committee packet.] He introduced himself for the record and referred to Chair Carpenter's staff for the sectional analysis.

[6:04:15 PM](#)

KENDRA BROUSSARD, Staff, Representative Ben Carpenter, Alaska State Legislature, on behalf of the sponsor, the House Special Committee on Ways and Means, of which Representative Carpenter serves as chair, presented the sectional analysis of HB 160 [copy included in the committee packet], which read as follows [original punctuation provided]:

Section 1: Changes the POMV draw rate from 5% of the 5-year average market value to the real rate of return times the balance.

Section 2: Changes "market value" to "balance" to conform with the changes in section 1.

Section 3: Makes language changes to conform with the changes in section 1.

Section 4: Provides an effective date so that the changes are in place next fiscal year.

[6:05:00 PM](#)

MR. KING stated that the Alaska Permanent Fund Corporation reached out with proposed changes for HB 160, including the use of the language "market value" instead of "balance". He began the presentation, explaining the purpose of the bill would be to change the current percent of market value (POMV) from a fixed 5 percent to a variable number which could track market conditions. Providing a brief overview of the need for the change, he stated that the stability of the current draw does not allow for drastic changes in the market, and a variable POMV would base the amount drawn directly on the fund's increases or decreases in a particular fiscal year. He defined the word "real" in the context of HB 160 to mean an "inflation adjusted number."

[6:06:34 PM](#)

MR. KING moved to slide 3, which listed the main problems with a fixed POMV. He first addressed that with a fixed POMV the draw rate is less than stated, as it is not based on actual performance, and this exposes the state to risks in both directions. Concerning the draw rate, he pointed to the graphic on slide 4, which showed that the current draw has been less than the 5 percent written in statute. He stated that any time the Permanent Fund has grown the draw will continue to be less than 5 percent because of the mathematical nature of averaging an amount in a state of growth. He pointed out a visual on slide 5 which showed the difference in draw size in past years compared to using a variable POMV and reiterated that the amount of the draw was less than 5 percent because the Permanent Fund has been growing.

[6:08:36 PM](#)

MR. KING posed the question of what would happen if the POMV was actually drawn at 5 percent and pointed to slide 6, which showed two graphs comparing the rolling average versus the current value of the fund. The graphs showed that if the draw was based on the current value of the fund rather than the five-year rolling average, it would create a higher allowable draw and could cause the earnings reserve account (ERA) to cease growth but remain stable. He added that inflation proofing was already accounted for in the graphs on the slide, and ERA would no longer be growing because the Permanent Fund would be reaching the goal of a 5 percent draw.

[6:09:47 PM](#)

MR. KING stated that drawing less is a problem and pointed to slide 7. He explained that the issue is growing ERA while in a deficit. He added that the term "deficit" here describes the state's fiscal situation, in that investors and credit raters in the national market are assuming the funds being withdrawn are from the savings account, when actually the state was using the revenues from the Permanent Fund. He explained that the POMV draw has been below the Permanent Fund's actual performance, therefore forcing ERA to grow.

[6:10:48 PM](#)

MR. KING, on slide 8, pointed out that the second issue with a fixed POMV is that it does not track performance. He explained that the graph shows what the allowable draws would have been in years past if the POMV had been based on the actual returns. He pointed out that the allowable and sustainable draw would have been above 5 percent. He stated that this would have been the case in most recent history, until the start of the economic decline in 2018. He said the green line is the average nominal return, or the actual return. He clarified that the type of means shown on the graph were chosen because of simplicity, but in the fiscal note the Permanent Fund Corporation has mentioned the "more appropriate" geometrical mean. The green line at the top of the graph is the "average nominal return" which is not adjusted for inflation. He stated that the returns are consistently over 8 percent. He contributed some of the recent loss of the nominal return to heightened inflation and reiterated that the real return was already adjusted for inflation.

[6:12:42 PM](#)

MR. KING compared the current formula to the proposed legislation on slide 9. He pointed out that the graph on the left shows how much money is allowed to be drawn from ERA into the general fund, while the graph on the right shows the effect on the balance. He explained that the numbers reflect an assumed forecast return of 7 percent, which would force lower draws from ERA because of the low performance of the Permanent Fund.

[6:13:47 PM](#)

MR. KING expressed the opinion that the current POMV has exposed the state to several risks, listed on slides 10 and 11. He said the first risk is the overperformance of the Permanent Fund, as the current POMV would not allow a higher draw even though it would be sustainable. He explained the consequences of several years at a high rate of return, and he informed the committee that the policy decision which needs to be made is whether to increase the savings account or satisfy current budgetary needs. During high performance, he identified the risk as being the inability to draw from the various revenues available because of the fixed POMV, and this forces the legislature to look at cutting the budget or raising taxes instead of utilizing the revenue Alaska already has.

[6:15:54 PM](#)

MR. KING pointed out another risk of a fixed POMV is that the 5 percent might end up being too high. On slide 12 he showed that if the Permanent Fund consistently produced low returns, ERA would be driven to a zero balance. He said it is incorrect to say that once ERA's balance goes to zero, there cannot be a draw. He argued that a draw could still be made, but only to the amount of the actual returns from the Permanent Fund.

[6:18:05 PM](#)

MR. KING pointed out that ERA was only driven to zero in this hypothetical because the general fund draw was not the only draw on ERA. He pointed to slide 14 and explained that draws to the principal account were made to help adjust for inflation, and this means that there are two forms of inflation proofing in current law. He suggested that if the legislature decides to rely on only the inflation proofing within POMV, the additional draws on ERA could be eliminated, and the balance would not be driven to zero.

[6:19:26 PM](#)

MR. KING addressed what an appropriate draw would be. On slide 14, he pointed out the results if inflation proofing were completely removed. He said that because ERA is earnings off the Permanent Fund, the legislature would have full access to the account. He implied that the purpose of ERA is to help "smooth" the account. He suggested that this would mean if the state's savings were not inflation proofed, and the legislature wanted to fully fund services, like education and the Alaska State Troopers, it could draw from ERA to do so. He concluded on slide 15 that the legislature could draw the complete nominal return while still being sustainable.

[6:20:47 PM](#)

REPRESENTATIVE GROH asked why the members from the Permanent Fund Corporation Board of Trustees were not present at the meeting.

CHAIR CARPENTER responded that he had not invited them.

REPRESENTATIVE GROH, considering the importance of stability in the permanent fund dividend (PFD) for the public and state spending, he asked for a comparison between the volatility of the current fixed POMV and the proposed variable POMV.

MR. KING replied that the volatility in current law is absorbed in the fund balance, so this fluctuates as opposed to the draw amount. He expressed the assumption that the trade off with a variable rate would be choosing either a "tracking" or a "smoothing" approach. He categorized the 20-year plan as having a smoothing effect, but trying to use ERA to completely remove volatility would be improbable because of the volatility introduced through the oil market. He said a better solution does exist, but when speaking strictly about the POMV, as long as reserves are maintained, a variable POMV would not add to the volatility.

REPRESENTATIVE GROH sought a list of pros and cons in consideration of passing HJR 9 instead of HB 160.

MR. KING explained that the two pieces of legislation are not substitutes for each other. He stated that HJR 9 would put the 5 percent POMV draw into the state's constitution. He expressed the opinion that this would not get rid of any of the previously

discussed issues, but rather increase the risk to the state. He explained that this is because in a situation where the draw is below 5 percent, the draw would start to dig into the principal fund. He opined that it would be best in this hypothetical situation to have a variable POMV which tracks returns. He explained that the main difference would be the draws would come straight out of the fund and not washed through ERA, and this would remove the possibility of draining the ERA balance to zero. In this case, he inferred that the state would have to maintain cash reserves in a different savings account in order to stabilize the volatility. He expressed the opinion that this savings account would be the constitutional budget reserve (CBR).

[6:24:59 PM](#)

CHAIR CARPENTER argued that the risks associated with constitutionalizing a specific number, in particular the potential for future circumstances, would mean eroding the corpus in order to pay PFDs and pay for state government. He suggested that this is not a future Alaskans would want.

[6:25:31 PM](#)

MR. KING, in response to a question from Representative Groh, stated that he did the modeling included in the presentation. In response to a follow-up question, he stated that the Department of Revenue (DOR) and the Permanent Fund Corporation both were contacted for comment; however, no response was received. He stated that the intent of the presentation is to include the topic of a variable POMV in the fiscal conversation; therefore, the modeling provided at this time does not represent a full analysis but is primarily illustrative. In response to a follow-up question, he stated the Legislative Finance Division had not been contacted.

REPRESENTATIVE GROH requested further modeling from DOR, the Permanent Fund Corporation, and the Legislative Finance Division.

CHAIR CARPENTER replied that he would follow up on this request.

REPRESENTATIVE GROH asked for a summary of how this proposal arose and where the idea originated.

CHAIR CARPENTER interjected that Mr. King should step back from the technical aspects of the presentation and "address the why."

6:27:40 PM

MR. KING pointed out that there is a fiscal note from the Permanent Fund Corporation which may help answer the previous questions. He mentioned that he was working for the Department of Natural Resources at the time the current POMV statute was passed, and many conversations had revolved around the amount of the draw. As a professional economist, he expressed the belief that it would be more appropriate to have a number which adjusts to actual conditions, especially when considering a constitutional amendment. He suggested that an alternative would be for the legislature to react when the draw is too high or too low; however, he argued that this would be too late.

6:28:56 PM

REPRESENTATIVE GRAY referred to the graph on slide 8 and reasoned that with the proposed formulation, the state would typically end up with more money. He questioned why this was not the case for 2021.

MR. KING explained that there is a 20-year rolling average and in 2021 there was a low Permanent Fund performance and high inflation. He added that the state probably overdrew ERA in 2021 because the draw rate did not react to the poor performance of the fund.

REPRESENTATIVE GRAY requested a further explanation of the effects of the 20-year average. He expressed the assumption that it would be more stable, yet the red line on the graph indicates the POMV was flat. He asked why [the proposed average rate of return] was more volatile than the POMV.

MR. KING responded that a fixed-POMV draw fluctuates based on the balance of the fund, which goes through multiple "smoothing" measures and ends up having less volatility. He explained that the proposed average rate of return would react directly to the volatile oil market; therefore, even with a 20-year smoothing, there will be volatility. He said that the legislature will have to decide for either a fixed number which could be incorrect or a dynamic system which requires the state to absorb some of the volatility.

REPRESENTATIVE GRAY expressed appreciation for HB 160 because it appears the state would have more money to spend; however, in reference to oil-based revenues, he expressed comfort in the

[fixed POMV] formula, as it appears more stable. He inferred that the state has been more fiscally conservative in recent years by drawing from the fund less than necessary. He expressed surprise that legislation was being proposed which would allow the state to spend more.

MR. KING explained that the state would not necessarily get access to more money. He referred to slide 9 and explained that the returns have been higher than predicted in recent years; therefore, the draws were higher as well. Looking at the future of the fund, he suggested there will be a smaller draw in [fiscal year 2025] because of high inflation and the zero to negative return of the current year. He reiterated that the draw amount is projected to be less because the variable POMV would adjust to the returns in real time. He implied that the proposed draw would function as a warning for the state to spend less in years with low returns.

REPRESENTATIVE GRAY inquired about the difference between using the current five-year average and the proposed twenty-year average. He assumed that a five-year average would show more influence from poor market performance over two years than the twenty-year model. He asked for a very simplified explanation of the impact the two bad years had on the model.

MR. KING confirmed that Representative Gray was talking about the "five years" in current law. He explained that the current law actually takes five percent of the average market value of the funds. The proposal in HB 160 would change POMV to a twenty-year average of the returns of the fund, which he said is not an apples-to-apples comparison.

REPRESENTATIVE GRAY shared his understanding that the proposed draw was based on the Permanent Fund's value and not on the strength of the market. He sought to confirm that even when the market is "bad," the recommended draw would only change when the fund's value did.

MR. KING replied that this is correct and added that if the POMV was drawing the entirety of the return, the number would be static.

REPRESENTATIVE GRAY expressed understanding to the point in slide 9; however, he expressed the belief that slide 8, which applies the average real return to the past, shows the state would have taken a bigger draw most of the years. If the market

was performing well, he questioned whether there would be a draw much larger than the current law allows.

MR. KING replied that if the future performance of the fund mimicked the performance of the past, and the returns remained above 5 percent, then the sustainable draw would also be more, and this would be correct.

REPRESENTATIVE GRAY expressed satisfaction with the answer.

MR. KING continued addressing the risks of having a fixed draw. He reiterated that a fixed draw could lead to a number too high or too low, depending on the activity of the market, and this would force the legislature to make a policy decision on whether to grow savings or spend on government programs.

[6:38:56 PM](#)

MR. KING, in response to a question from Representative McKay, answered that Senate Bill 26 [passed during the Thirty-First Alaska State Legislature] took effect in 2018. In response to a follow-up question, stated that the 5 percent POMV draws began in 2018, with no draws prior to this time.

REPRESENTATIVE MCKAY stated that the conversation about a POMV started around 2018 when Senate Bill 26 was being discussed. He questioned whether there had been a decision between a fixed and variable rate.

MR. KING agreed that there was a lot of discourse on the proper draw rate; however, the conversation revolved around what an appropriate fixed rate would be. He expressed the understanding that at the time there had been no talk about a dynamic rate.

REPRESENTATIVE MCKAY stated that the two main components of Senate Bill 26 were the five percent fixed rate draw and the five-year average for "softening" the funds. He expressed the opinion that the Senate Bill 26 plan had been the more conservative approach, resulting in lower draws and more inflation proofing. He recalled that the conservative choice was made because this had to do with typical endowment funds management.

MR. KING expressed uncertainty because there have been endowments which draw based on need. He added that spending rules for endowments vary widely across the world. He added

that for the international standard, 7 percent is the maximum sustainable draw.

REPRESENTATIVE MCKAY asked whether there would be less of a deficit if HB 160 were passed. If so, he questioned how much less the deficit would be.

MR. KING answered that yes, there would be a \$500 million to \$600 million draw this fiscal year which could be added to the budget. However, he explained that the market's performance for the remainder of the year would inform the amount of the draw next year and poor performance could result in an increase in the deficit in the future. He noted that a complication with a variable POMV would be if the draw amount for the PFD were to be set at half of the POMV value, and a high POMV would lead to a high PFD as well, which would not "close the gap completely."

REPRESENTATIVE MCKAY hypothesized that the possible \$500 million to \$600 million return for the current fiscal year would clear the budget deficit.

MR. KING reminded the committee that the figure is not "a hard number."

REPRESENTATIVE MCKAY posited that [the state's] "pain is self-inflicted" because of the policies set forth in Senate Bill 26.

MR. KING confirmed that this opinion is fair.

[6:45:10 PM](#)

REPRESENTATIVE GRAY concurred with Representative McKay; however, he expressed trepidation in reference to Mr. King's statement that next year may be very different. He expressed appreciation for the possible "extra \$600 million right now," but he expressed fear that a variable POMV could remove the certainty of the current POMV and create "chaos that might rival what [the state] has with oil revenues."

MR. KING addressed the concern by stating that the additional revenue coming from ERA, in his analysis, would essentially be moving money from CBR. He suggested that this would not add to the problem but change the way it would be solved. He added that the volatility in the modeling "is the price we pay" with a variable POMV. He said that the most prudent way to manage the volatility would be through a stabilization fund, and a mechanism which would prevent spending when revenues are high,

so savings would be available when revenues are low. He suggested that this structure would not be difficult to design, but he advised that it would need to be applied to both the fund and oil revenues.

MR. KING, in response to Chair Carpenter, confirmed that he was implying CBR is a stabilization fund.

[6:47:47 PM](#)

REPRESENTATIVE MCKAY, in recalling a conversation with Mr. King about inflation proofing, reminded the committee that the state has voluntarily deposited almost \$9 billion into the corpus over the last two years. He expressed the understanding that this was to be for inflation proofing; however, inflation proofing is already built into the fund. He requested a simplified explanation of this topic.

MR. KING explained that because ERA contains earnings from the Permanent Fund, all of this is constitutionally accessible by the legislature. He said that if the market conditions deteriorate the legislature could put money from ERA into the principal account to keep it from being spent. In terms of maintaining volatility stabilization, he explained that there must be money in the accessible fund for when the stock market and the oil market perform poorly, as these two volatile revenue streams usually offset each other. He said that if the state's portfolio is managed as a whole, more revenue could be taken from the better performing market, and the state could move away from using ERA. He suggested that a mechanism could be implemented which would force the state to save while returns are high. He referenced the proposal in HJR 2 as an example. He pointed out that moving money from ERA to the principal account is not actually inflation proofing, even though it is referred to as such. In the past, he said, ERA was primarily used for the PFD.

MR. KING, in response to Representative McKay, confirmed that in the original PFD statute, ERA was the source of the PFD. He explained that because ERA was intended to be distributed in the future and used to save money, there had been a separate mechanism in place to inflation proof the principal. He stated that now the state employs a POMV draw of ERA, and the 5 percent draw was chosen assuming there would be 7.5 percent growth and 2.5 percent inflation, so the draw amount itself was already accounting for inflation. He suggested that the principal account and ERA be thought of as one fund. He explained that

because the 2.5 percent was not drawn, it forced inflation proofing of the entire fund, but this amount must also stay within ERA. He said that transfers between the principal and ERA for additional inflation proofing were voluntary because of the proofing within the POMV structure. When making these transfers, he suggested that the legislature consider whether this money should be accessed.

REPRESENTATIVE MCKAY remarked that in the past Alaskans had agreed on inflation proofing in anticipation of needing it someday, and this had been done without realizing the state was "double dipping" on inflation proofing.

[6:53:10 PM](#)

CHAIR CARPENTER stated that the committee should look at the statute which required inflation proofing before Senate Bill 26 was in place.

MR. KING pointed out the statute in question is AS 37.17.145(c). He continued that when the conversations around inflation proofing began in the 80s and 90s, there was the understanding that Alaska still had high levels of oil production in its future. Now the state is facing less oil production, he opined that there needs to be a transition from growing the fund to using it. He stated that the policy call in front of the legislature now is how to structure the funding for the government. He remarked that a [broad-based] tax may need to be involved as well, but whether it is put in place now or later depends on the legislature's plan for the Permanent Fund.

[6:54:34 PM](#)

REPRESENTATIVE GRAY shared the understanding that HB 160 would allow the state to draw more money from the fund, but there would be a spending cap to prevent its use in the same fiscal year. If it allows there to be more money for the state to use, he stated that he could support HB 160; however, he expressed the understanding that the spending cap in the bill would mean the state would be "moving money around" rather than having more funds to spend.

MR. KING stated that the legislature could implement a spending limit for when the fund or oil returns were especially high, which would require the state to save any extra revenue rather than spend it. He explained that if the limit were followed the state would not need a POMV.

[6:56:41 PM](#)

REPRESENTATIVE MCKAY expressed the understanding that the 5 percent POMV would exceed the spending cap.

MR. KING explained that if a spending cap was introduced and the 5 percent POMV were to stay in effect, the state could run into problems during low-oil revenue years. He posited that in these years, CBR would not have enough to balance the budget while ERA would, but the state would not be able to access the excess funds in ERA. He stated that this would create an artificial spending problem. He suggested that if the legislature were to pass an effective spending limit, the proposed legislation would not be needed and POMV would be repealed.

[6:57:24 PM](#)

MR. KING, in response to a question from Chair Carpenter, explained that the POMV was in place to limit the amount the legislature could spend from the Permanent Fund earnings. If a [total] spending limit were put into statute [instead of a POMV], then this would serve as the POMV draw and allow excess earnings [from the fund] to support the state in low-oil years. He surmised that it would be unusual to have both a spending and POMV limit because the constitution prevents the principal account from being "invaded." In response to a follow-up comment, he stated that the stabilization fund would be either ERA or CBR.

[6:58:26 PM](#)

REPRESENTATIVE GRAY expressed appreciation for the explanation, as he had heard the POMV was a spending limit, and he expressed the understanding that HB 160 would be raising this limit during high performing years, which was an idea he supported.

[6:58:56 PM](#)

REPRESENTATIVE MCKAY referred to previous conversations with Mr. King about the possible negative effects of an overly large corpus on the development of the private sector. He posited that spending more of the Permanent Fund during [low revenue] years would be beneficial towards creating a "healthy capitalist economy" with a vibrant private sector. He asked Mr. King to provide his thoughts on this idea.

MR. KING addressed the fact that in previous years there was a great surplus of funds, and it made sense to grow savings in the fund rather than spend it. He posited that from an economist's viewpoint, it makes sense to save money when the fund is in surplus but does not make sense to grow the savings account when the money is coming from the private sector economy. He pointed out two possible futures the legislature would need to consider when deciding fund policy. In one future, he stated that there would be a Permanent Fund large enough to fully fund the government, which would necessitate a smaller private sector. He deduced that this would put the public and private sectors at odds with each other. In the other possibility, he described a future where the fund provides for the "baseline" government services, and the private sector contributes the rest [through a tax], which would allow the two sectors to work in tandem. He emphasized that, when considering the two futures, there needs to be the consideration that sacrifices are often required. He suggested that the sacrifice for supporting the government with the Permanent Fund would be taxing and injuring the current economy in order to avoid future taxes. He posited that this would be as generationally inequitable as doing the opposite and "recklessly draining the fund" to leave future generations to fend for themselves. He stated that balancing this "give and take" is at the crux of the legislature's fiscal plan decisions.

REPRESENTATIVE MCKAY referenced several different tax proposals before the current legislature and posited that if the state were to implement all of these, while also not drawing enough from the fund, then the state would be hurting the private sector to keep the Permanent Fund higher than needed.

MR. KING replied that this point is valid, in that if the legislature decides to continue growing the fund, it will also need to ask, "At what cost?" He said a good long-term plan would balance the fiscal impacts, including taxation, between the current and future generations. He described the balancing act of protecting the current economy while also insuring a prosperous future as "tenuous." He attributed the difficulty of these fiscal decisions in part to not knowing the future. He argued that this is why the [fiscal] structure should automatically adjust to the markets.

[7:05:10 PM](#)

CHAIR CARPENTER discussed the history of the PFD, explaining that the PFD program was not created at the inception of the Permanent Fund, as the [original] sole purpose was to grow the

fund. The PFD was created to increase the public's stake in the growth of the fund. He expressed the belief that this also created inflation proofing of the principal. He continued that the purpose for the change in the dividend formula with Senate Bill 26 was to create a stabilized revenue for the state government. Returning to the conversation about the balance of paying dividends and funding services through a more stable source of revenue, he stated that part of this would be to use taxation as a way to balance spending and allow for money to be removed from the fund to further its growth. He questioned whether the current purpose is to continue to grow the fund, and if so, he questioned when "enough is enough." He stated that if the purpose is instead to provide revenue for the state, the appropriate amount which allows the fund to be a sustainable revenue source needs to be determined. He said that in order to establish a fiscal structure the question of the fund's purpose needs to be decided by the legislature. He stated that this answer will dictate whether Alaska needs support from the private sector to pay for state government. He expressed agreement with Representative McKay's statement, which related that requiring residents to pay taxes while still focusing on the growth of the fund would be "the wrong thing to do."

[7:08:38 PM](#)

REPRESENTATIVE GRAY expressed the opinion that one of the most difficult things is for people to take action in order to benefit future generations, instead of the current one. He shared his understanding that Alaska will run out of oil revenue eventually, and the importance of keeping the fund growing would be to provide the state with a stable form of revenue. If one or more of the proposed taxes passes in the current legislature, he pointed out that Alaska would still be the lowest taxed state in the nation because of the Permanent Fund. He referenced a statement made by a fellow member that the state could "spend the whole Permanent Fund, and then figure it out." He feared that if this happens, Alaska would be forced to become one of the highest taxed states, with no revenue from oil or the Permanent Fund. He expressed appreciation for past decisions of the legislature to put money away without being required to do so, and he expressed the sentiment that he would not want to increase the POMV draw at the expense of future Alaskans.

REPRESENTATIVE MCKAY argued that the state may be forced to [raise the POMV] in a couple of years because CBR will be empty.

REPRESENTATIVE GRAY countered by expressing the hope that the state will still have over \$80 billion.

REPRESENTATIVE MCKAY responded that there would be an issue if CBR is drawn to zero and the budget is still in a deficit.

[7:11:38 PM](#)

CHAIR CARPENTER remarked that if the state draws all reserves to zero, the state is constitutionally obligated to provide for the current generation and will have to go after other sources of funding to do so. He named these sources as the education fund, corporations the state has funded, and the Permanent Fund corpus.

[7:12:22 PM](#)

REPRESENTATIVE GROH pointed out the progress the committee has shown on the topic. He expressed appreciation of the acknowledgement that Alaska is the lowest taxed state. Continuing the discussion of Alaska's many eras of fiscal policy, he shared that he had been born in Alaska when it was still a territory. Before the oil market was developed, he recalled that Alaska used an income tax as its main form of revenue. He also recalled that in 2015 it became obvious to [the public] that the system of living off the oil tax was broken. He stated that it was not until 2018 this problem was acknowledged by the state with the creation of the POMV draw.

REPRESENTATIVE MCKAY asked whether the action was prompted by the [Alaska] Supreme Court case in 2016 pertaining to Governor Bill Walker's PFD veto.

REPRESENTATIVE GROH expressed disagreement and argued that the general thinking around how to fund the state started to change in 2015. He continued that this was when residents realized that using oil money exclusively to fund the government and the PFD no longer worked.

[7:14:38 PM](#)

CHAIR CARPENTER replied that a decision had been made [by the governor].

[7:14:53 PM](#)

REPRESENTATIVE GROH shared that in his previous line of work he would give many presentations on the topic, where the same two questions were asked. He stated that the first question was, "What is the Permanent Fund for?" He acknowledged that this echoes Chair Carpenter's statement. He said that the second question about Alaska's fiscal future was, "How long do you plan to stay in Alaska?" He opined that one of the biggest issues facing Alaska is how many people plan to leave the state at some point. He expressed the belief that this question has contributed to the reluctance to make a sacrifice now, as residents may plan to move. He expressed the belief that the reality of outmigration needs to be confronted and considered as a large factor in Alaska's fiscal plan.

[7:17:07 PM](#)

REPRESENTATIVE MCKAY requested that Mr. King describe what would happen if CBR became empty. He referenced the legislature's ability to move money from ERA.

MR. KING responded that there are two clauses in the constitution which allow for a draw from CBR. One of the clauses allows the legislature to make a CBR draw through a three-quarter vote. He reported that the other clause has never actually been used because it only gets triggered if the state does not have the revenues to fund the budget from the prior year. He stated that this clause only requires a simple majority vote to pass.

REPRESENTATIVE MCKAY restated for the record that a mechanism existed which could be triggered during a budget deficit, with a zero balance in CBR, allowing the legislature to refill CBR [from ERA] through a majority vote to balance the budget.

MR. KING replied that Representative McKay was correct and further explained that the introduction of these two clauses into the constitution acted as a spending limit for the legislature. He referenced the idea of putting a spending cap into law and said that CBR already naturally restricts spending. If funds are to be kept in CBR, rather than ERA, for the sake of stabilization, he pointed out that these mechanisms already exist, and there is no need for further legislation. He pointed out the common misuse of vernacular surrounding ERA, which refers to draws from this account as "drawing from our savings". All funds within ERA are earnings already accessible to the legislature as part of the general fund, and he emphasized that the POMV law does not give the state permission to access ERA,

but rather limits how much can be drawn. He described the public discourse around ERA and PFD as misleading because the principal of the PFD cannot be invaded unless there is a change to the constitution. He inferred that the current policy question is not whether to draw from the principal, but whether the legislature wants to give protections to the balance of ERA or use this balance for government spending.

REPRESENTATIVE MCKAY referenced the situation in Norway, where they have a \$1 trillion sovereign wealth fund, but no dividend. He stated that the country has a high tax rate, while continuing to grow its fund from oil and gas revenues. He inquired about Norway's fiscal plan in comparison to Alaska's. He asked whether Norway no longer funds its government entirely on gas and oil, and whether it is looking to implement a draw from its fund. He additionally questioned the similar wealth fund in Alberta, positing that Alaska is not like other states, but rather like other countries.

[7:22:46 PM](#)

CHAIR CARPENTER informed Mr. King that he would not be required to address the situation in Norway, as this is not his field of expertise.

[7:22:59 PM](#)

REPRESENTATIVE GROH pointed out several differences between Norway and Alaska, including higher taxes and a higher government take of oil revenues. He opined that Norway's government takes on more risk with operations, such as a government run oil company. He expressed support for this strategy in Alaska.

[7:24:12 PM](#)

CHAIR CARPENTER said the point being made is that Norway does things very differently than Alaska.

[7:24:18 PM](#)

REPRESENTATIVE GROH touched on Representative McKay's inquiry about Alberta's wealth fund and opined that there have been social investments made with this fund which created substantial trouble for the province. He expressed the opinion that Alaska has worked hard to avoid this.

[7:24:42 PM](#)

CHAIR CARPENTER commented that the committee conversation is challenging the current paradigm. He posited that the main question being discussed is how the legislature can solve a deficit in the current year, while taking into account the fiscal security of future generations. He questioned whether the 5 percent POMV is serving the right purpose in the current fiscal choices. He listed additional financial levers to consider for reducing the deficit, such as implementing a tax and reducing spending. Additionally, he considered the possibility of drawing money from the Permanent Fund and whether its use should be solely for government services, or also for growing businesses and promoting private sector investment. He stated that the current models being proposed include a 50/50 or 75/25 split, but the underlying question of the purpose of the fund must be answered in either case. He reiterated that the state needs to make the choice between a future where the Permanent Fund fully funds the government or a future where the private sector economy is tied to the state's economy. He suggested that there is value in the private sector tax revenue, beyond just funds. He continued that job growth and creating buy-ins from the private sector would bring economic growth. He opined that Alaska could choose the path of economic growth and fund government services this way, or fund government services fully from the Permanent Fund, as in Norway.

[7:27:41 PM](#)

REPRESENTATIVE GROH clarified that Norway has many taxes and does not fully fund the government through its sovereign wealth fund.

CHAIR CARPENTER agreed with Representative Groh's point and stated that he was referring to Norway's lack of a dividend and that it uses both the wealth fund and tax revenue for government services.

[7:28:07 PM](#)

MR. KING commented on Representative Gray's concern for saving the money for the future by stating that the state has already done this, as there is \$60 billion protected within the principal for future generations. He added that the original growth of the fund was intended to make temporary oil wealth last forever. Continuing to save some of the royalties into perpetuity made sense, but he argued that now the state was

considering saving earnings rather than oil wealth. He concluded by stating that the policy call in front of the legislature is whether to save oil wealth or Permanent Fund earnings for the future.

[HB 160 was held over.]

[7:29:33 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 7:29 p.m.