

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

March 6, 2024

6:02 p.m.

MEMBERS PRESENT

Representative Ben Carpenter, Chair
Representative Jamie Allard
Representative Tom McKay
Representative Kevin McCabe
Representative Cathy Tilton
Representative Andrew Gray
Representative Cliff Groh

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 110

"An Act relating to the Alaska permanent fund; relating to permanent fund dividends and the dividend fund; transferring the dividend program from the Department of Revenue to the Alaska Permanent Fund Corporation; relating to the duties of the Department of Revenue; relating to the duties of the Alaska Permanent Fund Corporation; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 266

"An Act relating to the Alaska permanent fund; relating to dividends for state residents; relating to the use of certain state income; relating to contributions from permanent fund dividends to the general and permanent funds; and providing for an effective date."

- HEARD AND HELD

HOUSE JOINT RESOLUTION NO. 9

Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund and to appropriations from the Alaska permanent fund.

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 110

SHORT TITLE: PERM FUND; XFER DIVIDEND PROG TO APFC

SPONSOR(s): REPRESENTATIVE CARPENTER

03/13/23	(H)	READ THE FIRST TIME - REFERRALS
03/13/23	(H)	W&M, FIN
03/27/23	(H)	W&M AT 6:00 PM DAVIS 106
03/27/23	(H)	Scheduled but Not Heard
03/29/23	(H)	W&M AT 6:00 PM DAVIS 106
03/29/23	(H)	Heard & Held
03/29/23	(H)	MINUTE(W&M)
04/24/23	(H)	W&M AT 6:00 PM DAVIS 106
04/24/23	(H)	Heard & Held
04/24/23	(H)	MINUTE(W&M)
04/25/23	(H)	W&M AT 6:00 PM DAVIS 106
04/25/23	(H)	Heard & Held
04/25/23	(H)	MINUTE(W&M)
03/06/24	(H)	W&M AT 6:00 PM DAVIS 106

BILL: HB 266

SHORT TITLE: PERMANENT FUND DIVIDEND; ROYALTIES

SPONSOR(s): REPRESENTATIVE CARRICK

01/16/24	(H)	READ THE FIRST TIME - REFERRALS
01/16/24	(H)	W&M, FIN
01/16/24	(H)	REFERRED TO WAYS & MEANS
03/06/24	(H)	W&M AT 6:00 PM DAVIS 106
03/06/24	(H)	Heard & Held

BILL: HJR 9

SHORT TITLE: CONST AM: PERMANENT FUND; POMV;EARNINGS

SPONSOR(s): REPRESENTATIVE GROH

03/06/23	(H)	READ THE FIRST TIME - REFERRALS
03/06/23	(H)	W&M, JUD
03/08/23	(H)	W&M AT 6:00 PM DAVIS 106
03/08/23	(H)	-- MEETING CANCELED --
03/11/23	(H)	W&M AT 9:00 AM DAVIS 106
03/11/23	(H)	Heard & Held
03/11/23	(H)	MINUTE(W&M)
03/06/24	(H)	W&M AT 6:00 PM DAVIS 106

WITNESS REGISTER

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

POSITION STATEMENT: Explained the changes that would be made by a proposed committee substitute for HB 110 and answered questions on behalf of the bill sponsor, the House Special Committee on Ways and Means, on which Representative Carpenter serves as chair.

DONNA ARDUIN, Staff
Representative Ben Carpenter
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 110 on behalf of the House Special Committee on Ways and Means, sponsor, on which Representative Carpenter serves as chair.

PAULYN SWANSON, Director
Alaska Permanent Fund Corporation
Juneau, Alaska

POSITION STATEMENT: Answered questions related to HB 110.

REPRESENTATIVE ASHLEY CARRICK
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As the prime sponsor, presented HB 266.

STUART RELAY, Staff
Representative Ashley Carrick
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Gave the sectional analysis for HB 266 on behalf of Representative Carrick, prime sponsor.

ACTION NARRATIVE

[6:02:03 PM](#)

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

HB 110-PERM FUND; XFER DIVIDEND PROG TO APFC

[6:03:02 PM](#)

CHAIR CARPENTER announced that the first order of business would be HOUSE BILL NO. 110, "An Act relating to the Alaska permanent fund; relating to permanent fund dividends and the dividend fund; transferring the dividend program from the Department of Revenue to the Alaska Permanent Fund Corporation; relating to the duties of the Department of Revenue; relating to the duties of the Alaska Permanent Fund Corporation; and providing for an effective date." [Before the committee was the proposed committee substitute for HB 110, Version 33-LS0371\R, Nauman, 4/24/23, adopted as a working document.]

[6:03:39 PM](#)

REPRESENTATIVE MCCABE moved to adopt the proposed committee substitute (CS), Version 33-LS0731\H, Nauman, 3/6/24, as a working document.

CHAIR CARPENTER objected for the purpose of discussion.

[6:04:01 PM](#)

The committee took a brief at-ease at 6:04 p.m.

[6:04:29 PM](#)

KENDRA BROUSSARD, Staff, Representative Ben Carpenter, Alaska State Legislature, on behalf of the bill sponsor, the House Special Committee on Ways and Means, on which Representative Carpenter serves as chair, explained the changes that would be made by the proposed committee substitute. She spoke from the document in the committee packet titled "CS For House Bill 110 (W&M) Summary of Changes Version R to Version H," which read as follows [original punctuation provided]:

Title Change

Delete: relating to the duties of the Department of Revenue; relating to the duties of the Alaska Permanent Fund Corporation.

Add: relating to income of the Alaska permanent fund; relating to the earnings reserve account.

Eliminates Sections

Eliminates sections 2, 3, 7, 8, 10 - 14, 17 - 24 from Version R.

Section 1

Legislative Intent Language: It is the legislature's intent to pass a constitutional amendment that requires payment of permanent fund dividends to eligible state residents, and, in statute, establish the annual amount of the PFD and maximum draw from the earnings reserve account.

Section 2

Amends Department of Administration accounting statute to conform to moving the earnings reserve account from the general fund to the permanent fund corporation.

Section 3

Changes Sec. 4 in Version R which amends 37.13.140 (permanent fund income) to conform to moving the earnings reserve account to the permanent fund corporation. This new CS keeps the calculation of income for distribution from the fund at five percent of the average market value of the fund for the first five of the preceding six years and eliminates the 21 percent of net income calculation.

Section 4

Amends the disposition of income from the permanent fund statute to move the earnings reserve account from the general fund to the permanent fund.

Section 5

Changes Sec.5 of Version R that requires the earnings of the fund to be transferred each year to the general fund. As in Version R, the draw from the earnings reserve account may not exceed the balance in the account.

Section 6

Changes Sec. 6 from Version R which has conforming language for the Amerada Hess exclusion for the computation of income available for disposition.

Section 7

Changes Sec. 9 from Version R which has conforming language for the Mental Health Trust exclusion for the computation of income available for disposition.

Section 8

Adds conforming language for the power cost equalization fund income exclusion for the computation of income available for disposition.

Section 9

Changes Sec. 15, individual dividend calculation language from Version R, to conform to the calculation and transfer of the dividend payment in this amendment.

Section 10

Changes Sec. 16 of Version R, public notice of the value of the individual dividend amount, to conform to transfer language.

Section 11

Requires the department of revenue to transfer 50% of the amount of permanent fund earnings available for distribution each year to the dividend fund for the payment of dividends.

Section 12

Adds conforming language to the dividend fund section of statute.

Section 13

Repeals AS 37.13.145(c) (inflation proofing), AS 37.13.145(e) (appropriations from the earning reserve account), and AS 37.13.145(f) (total available for appropriation).

Section 14

Adds to uncodified law a conditional effect. This act only takes effect if a constitutional amendment to art. IX, sec. 15, Constitution of the State of Alaska, requiring an annual permanent fund dividend be paid to eligible residents of the state, is passed by the legislature, and approved by the voters at the 2024 general election.

Section 15

Provides for an effective date of July 1, 2025.

[6:08:58 PM](#)

CHAIR CARPENTER provided a correction regarding Section 14 that it is a "conditional" effect, not a "constitutional" effect. He said the intent of the language is to put a conditional effect so that this legislation is contingent upon other legislation.

[6:09:16 PM](#)

REPRESENTATIVE GRAY inquired about why not make the proposed conditional effect a statutory change in the way same way as the [permanent fund] dividend.

CHAIR CARPENTER answered that the conditional effect language communicates that this is part of a comprehensive plan, not a stand-alone provision, and other pieces of legislation must also be considered with this piece of legislation.

REPRESENTATIVE GRAY asked whether the dividend would come out to be a 50-50 split.

CHAIR CARPENTER replied that he thinks that's what the language is, as drafted.

REPRESENTATIVE GRAY asked what the harm would be in making it a statutory change to go to a 50-50 split if HJR 7 isn't passed.

CHAIR CARPENTER responded that it would still be subject to the appropriations process because the size of the dividend laid out in statute is already there. The statute could be changed but the appropriations process would decide whether to follow that statute. So, HJR 7 would be the forcing function that points to

the statute and says the legislature has dedicated the fund and therefore that must be followed.

[6:11:17 PM](#)

REPRESENTATIVE GROH thanked the chair for bringing this forward. He pointed out that there is the rate and there is the base. One base is the percent of market value (POMV) draw and the other is the current statute of income available for distribution which can be a larger amount. Income available for distribution is a term that was created in the 1980s, while POMV draw is from 2018 when the legislature adopted the POMV statutes. When talking about the rate of 50 percent, the base is important, and it is important to distinguish which base. The current statutes refer to the income available for distribution whereas this proposal would move it to 50 percent of the POMV draw.

CHAIR CARPENTER confirmed there are two formulas. The formula that has been around for a long time is 21 percent of the net earnings of five of the last six [fiscal] years, which identifies a sum of money. A recently passed bill, Senate Bill 26, established a different way of calculating a sum of money, which is 5 percent of market value. This provision recognizes that the legislature wants to use 5 percent of market value as the way to calculate the sum of money that is available from the permanent fund.

[6:13:24 PM](#)

REPRESENTATIVE GRAY recalled that while considering Version R of the bill, there was talk about moving everything to the Permanent Fund Corporation. He requested elaboration on what would be moved to the Permanent Fund Corporation, how it is different from today, and going from the "big bill" to this smaller bill.

CHAIR CARPENTER answered that the original bill's intent was to move responsibility for the entire program into the Permanent Fund Corporation as opposed to the Department of Revenue (DOR). The intent of Version H is to make the bill simpler by not transferring the entire responsibility away from DOR.

REPRESENTATIVE GRAY inquired whether there would be any difference to the way the permanent fund is currently paid if this bill were in effect.

CHAIR CARPENTER replied that under this bill there would be no difference with how it is currently being done, other than it would move the earnings reserve account from the general fund to the Permanent Fund Corporation to keep it in line with the language in HJR 7.

[6:15:21 PM](#)

DONNA ARDUIN, Staff, Representative Ben Carpenter, Alaska State Legislature, on behalf of the sponsor of HB 110, the House Special Committee on Ways and Means, on which Representative Carpenter serves as chair, explained that Version H conforms with language in HJR 7, which is one step and then another. The calculation is in statute, and in HB 110 it would be 5 percent POMV to the general fund. Because HJR 7 takes the earnings reserve account out of the general fund and puts it into the permanent fund, HJR 7 says the only money that can come out of the earnings reserve account constitutionally is whatever that calculation is in statute. The first step of that change, then, is to transfer the entire 5 percent POMV to the general fund and then half of that to the dividend fund for the payment of dividends. Technically it's just a different process.

REPRESENTATIVE GRAY asked whether DOR or the Permanent Fund Corporation has a position on the proposed changes in Version H.

[6:16:49 PM](#)

PAULYN SWANSON, Communications Director, Alaska Permanent Fund Corporation, responded that the corporation doesn't currently have a position on the bill, but has reviewed the work draft. She related that currently the Alaska Permanent Fund Corporation does manage the earnings reserve account, which is a statutory account as currently established. She offered her understanding that [Version H] would transfer the earnings reserve account to the permanent fund, as established in the constitution. Other than that transfer, the corporation hasn't seen any other effect per se on how it would then manage the fund at this time.

[6:18:09 PM](#)

CHAIR CARPENTER asked if Ms. Swanson believes the legislature would be able to appropriate out of the earnings reserve account any additional money than what the statute authorizes, should the earnings reserve account be transferred from its current location of the general fund and into the constitutional portion

of the permanent fund under the purview of the Alaska Permanent Fund Corporation.

MS. SWANSON replied she would need to assess that, so doesn't have a direct answer. She said she doesn't know that it would change anything about the power of appropriation that the legislature currently has over the earnings reserve account.

CHAIR CARPENTER said his intent is to be able to transfer that earnings reserve account into the corpus portion that is not appropriable from --

MS. ARDUIN interjected that she believes the question being asked pertains to HJR 7. Given HJR 7 would constitutionally move the earnings reserve account into the fund, she said she believes HJR 7 walls it off, not HB 110.

CHAIR CARPENTER stated that that is an important distinction. He said he would also like to run this by Legislative Legal and Research Services.

[6:20:02 PM](#)

CHAIR CARPENTER removed his objection to the motion to adopt the proposed CS to HB 110, Version H. There being no further objection, Version H was before the committee.

[6:20:18 PM](#)

CHAIR CARPENTER announced that HB 110 was held over.

HB 266-PERMANENT FUND DIVIDEND; ROYALTIES

[6:20:26 PM](#)

CHAIR CARPENTER announced that the next order of business would be HOUSE BILL NO. 266, "An Act relating to the Alaska permanent fund; relating to dividends for state residents; relating to the use of certain state income; relating to contributions from permanent fund dividends to the general and permanent funds; and providing for an effective date."

[6:20:36 PM](#)

The committee took an at-ease from 6:20 p.m. to 6:23 p.m.

[6:23:17 PM](#)

REPRESENTATIVE ASHLEY CARRICK, Alaska State Legislature, as prime sponsor, introduced HB 266 as an alternative and sustainable dividend model. She paraphrased from the sponsor statement [included in the committee packet], which read as follows [original punctuation provided]:

Alaska has long suffered from a volatile and uncertain fiscal situation. Despite the efforts of many current and previous members of the Alaska Legislature, these issues persist. Resolving these longstanding fiscal issues and preserving Alaska's economic future is a top priority. The resolution of this perennial issue will impact Alaska's current and future generations.

In 2018, the legislature took a decisive step toward creating the components of a fiscal plan by passing SB 26, which established the mechanism to draw money from the Permanent Fund. This stabilized our revenue stream and helped fund government services. Since then, earnings from the Permanent Fund now account for most of our state's revenue. Despite its passage, SB 26 was unfortunately incomplete, as it left us with conflicting statutes relating to the Permanent Fund and Permanent Fund Dividend (PFD) program. Since then, the Legislature has continued to be deadlocked in prolonged budget battles over the size of the PFD as well as the amount to draw annually to balance our state budget.

HB266 would provide a strong stabilizing mechanism for our fiscal situation, allowing Alaskans and their government to better resolve our persistent fiscal issues by first resolving the conflicting statutes surrounding the Permanent Fund and annual PFD distributions. This bill designates where the money for the dividend program comes from. More specifically, this bill would decouple the dividend from the Permanent Fund, instead designating all revenue from royalties on mineral leases that is not statutorily designated, or constitutionally dedicated for other purposes toward annual dividend payments. This money would then be utilized for yearly dividends. This not only gives Alaskans a direct stake in responsible resource development for our state, it also reduces our reliance on the volatile revenue

stream from resource development by instead having its resource revenue go directly into Alaskans pockets.

Different versions of this dividend reform concept have been introduced as legislation over the years, most recently as HB 202 in 2021. Additionally, this bill adds the concept from HB 45 and gives Alaskans the option to donate their dividend to the general fund or the permanent fund if they choose.

Alaska is at a crossroads. We need to fix our persistent fiscal issues and stop kicking the can down the road. I hope you will join me in taking a decisive step in the right direction toward resolving our fiscal issues by supporting HB 266.

[6:25:25 PM](#)

STUART RELAY, Staff, Representative Ashley Carrick, Alaska State Legislature, on behalf of Representative Carrick, prime sponsor, paraphrased from the sectional analysis for HB 266 [included in the committee packet], which read as follows [original punctuation provided]:

Section 1. AS 37.13.140(a)

Removes language relating to the income available for the distribution of Permanent Fund Dividends [PFDs].

Section 2. AS 37.13.145(c)

Makes conforming changes due to the repeal of AS 37.13.145(b) in section nine and updates language to conform with the decision in *Wielechowski v. State*.

Section 3. AS 37.13.145(d)

Makes conforming changes due to the repeal of AS 37.13.145(b) in section nine and updates language to conform with the decision in *Wielechowski v. State*.

Section 4. AS 37.13.145(e)

Reaffirms the prohibition on overdrawing the percent of market value (POMV) draw on the Permanent Fund. This is necessary due to the repeal of AS 37.13.145(f) in section nine.

Section 5. AS 43.23.025(a)

Makes conforming changes as a result of sections one and seven.

Section 6. AS 43.23.028(a)

Makes conforming changes as a result of section one.

Section 7. AS 43.23.045

Adds a new subsection (f) to designate 69% of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses by the state during the fiscal year for the distribution of dividends.

Section 8. AS 43.23

Adds a new section with the following subsections. AS 43.23.135(a) requires the electronic PFD application to allow Alaskans to donate their PFD in 25 dollar increments to the general fund or the permanent fund if they so choose. It allows increments to be between 25 dollars and the entire value of the PFD payment. It also requires that applicants be notified that seven percent of the value of the contributions to the general or permanent fund under this section will be used for the administrative costs of implementing this section and that money from the dividend fund will not be used for that purpose. AS 43.23.135(b) prohibits agencies that claim PFD's on behalf an individual under AS 43.23.015(e) to make contributions from that individual's PFD to the general or permanent funds as discussed in subsection (a). AS 43.23.135(c) specifies that the option to donate a portion of your PFD under this section is different than the Pick.Click.Give option and shall be in a different section of the electronic PFD application.

Section 9.

Repeals AS 37.13.145(b) and AS 37.13.145(f).

Section 10.

Effective Date This bill takes effect on July 1, 2024.

6:28:38 PM

REPRESENTATIVE CARRICK began a PowerPoint presentation of HB 266 titled "An Alternative and Sustainable Dividend HB 266" [hard copy included in the committee packet]. She paraphrased from slide 2, "WHO OWNS ALASKA'S RESOURCES?", which read as follows [original punctuation provided]:

- Alaska's subsurface mineral rights are owned by Alaskans collectively, not by Alaskans individually.
- From Governor Hammond:
 - "I believed the best, perhaps the only, way to meet our constitutional mandate to manage our natural resources for the maximum benefit of all the people was to grant each citizen an ownership share in Alaska's resource wealth to be used as they, not the government, felt was for their maximum benefit*."
- The Dividend is Alaskans' individual share of our collective revenues from our resource development.

REPRESENTATIVE CARRICK addressed slide 3, "THE CURRENT DIVIDEND PROGRAM," which read as follows [original punctuation provided]:

- The current 1982 statutory formula, and all proposed POMV formulas, are based off the performance of the permanent fund itself rather than the direct performance of resource development.

REPRESENTATIVE CARRICK explained that the graphs on slide 3 demonstrate the differentiation between the size of the permanent fund dividend (lower graph) and petroleum revenue including royalties (upper graph). She pointed out the long-time volatility in the state's resource revenue versus the long-time stability in the state's permanent fund. She noted that while the dividend amount has fluctuated, an overall stable base threshold has been maintained since the late 1970s.

REPRESENTATIVE CARRICK displayed slide 4, "OUR CURRENT FISCAL SITUATION." She said the graph on the left shows the size of Alaska's budgets since fiscal year 1981 (FY 81) and the graph on

the right shows the amount of money withdrawn from state savings accounts since FY 14. Totaling over \$19 billion, these withdrawals have brought the state's savings accounts to dangerously low levels, she warned, and action needs to be taken to have a more stable fiscal situation.

[6:31:24 PM](#)

MR. RELAY spoke to slide 5, "SPECIFICS OF THE BILL," which read as follows [original punctuation provided]:

- HB 266 gives Alaskans a direct stake in our resource development while reducing budgetary volatility.
- It repeals the unsustainable 1982 dividend formula and replaces it with a formula that designates all royalty revenue not already constitutionally dedicated or statutorily designated to the dividend
- This decouples more volatile revenue from our budgeting process allowing for greater stability in annual budgeting.
- Additionally, it allows Alaskans the ability to contribute portions of their dividend to the general fund or to the permanent fund if they choose.
- Allows for potentially larger annual dividend payments.

MR. RELAY recalled that a bill similar to HB 266, House Bill 202 introduced in 2021 by now-Senator Merrick, designated only 30 percent of royalties. He posited that since HB 266 ties the dividend directly to resource development, Alaskans could possibly receive higher dividends with increased development, providing an incentive to develop additional resources to ensure a higher dividend payout.

[6:33:55 PM](#)

REPRESENTATIVE CARRICK explained that the chart on slide 6, "PROJECTED ROYALTY DIVIDEND SIZE," shows the fiscal model put together by the Legislative Finance Division for HB 266. She related that per this fiscal model, the FY 25 dividend would be \$1,822, while the projected 75/25 POMV dividend for FY 25 is

just over \$1,300. With this model, she added, there would be a budget surplus through FY 28.

REPRESENTATIVE CARRICK specified that the graph on slide 7, "PROJECTED BUDGET AND REVENUE OUTLOOK," prepared by the Legislative Finance Division, looks at the revenue impact of the dividend formula under HB 266. The bill itself is revenue neutral, it doesn't increase royalty rates, oil and gas taxes, or draws on the permanent fund or any other form of state revenue. This model constitutes a budget surplus through FY 28, she reiterated, which gives the legislature additional time to address questions about state revenue and diversifying the state's economy.

REPRESENTATIVE CARRICK summarized her presentation with slide 8, WHY IS HB 266 IMPORTANT?" She said a benefit of HB 266 is that it would tie the dividend formula to the direct performance of resource development rather than the performance of the fund itself, returning the dividend to its original intended purpose of compensating Alaskans for their subsurface rights. The bill would decouple volatile state revenue from the annual budget process, she said, allowing the state to have a more predictable budget cycle, a fiscally responsible dividend, and budget surpluses through FY 28. She reiterated that the proposed formula incentivizes greater resource development to satisfy Alaskans' dividend needs. Lastly, she continued, the bill incentivizes potentially a more robust tax structure or conversation about natural resource development projects and tax structure to meet Alaskans' dividend needs. The bill doesn't specifically increase royalty rates or draw on permanent fund or on any other sources of revenue, rather it provides a new mechanism and new formula for the dividend.

[6:37:02 PM](#)

CHAIR CARPENTER said he appreciates the sponsor's outside-the-box thinking and different approach than other bills the committee has seen. He noted Governor Hammond's quote and inquired about the governor's thoughts on the purpose of the dividend itself.

REPRESENTATIVE CARRICK offered her understanding that the original purpose of the dividend from Governor Hammond's perspective was to help provide some stability for individual Alaskans, compensate for subsurface rights, and make available a program that would provide for Alaskans into the future.

MR. RELAY stated that the quote is from Governor Hammond's book *Diapering the Devil* in which the governor discusses that there is a component of the dividend as described by Representative Carrick as well as a component of the dividend creating a certain level of protection for the fund itself with Alaskans.

6:39:25 PM

REPRESENTATIVE MCCABE agreed and added that Governor Hammond's idea was that should the legislature try to spend the corpus, the permanent fund itself, Alaskans would rise in anger to stop the stealing of their dividends. He maintained that while the idea has merit, it isn't working well given the legislature's actions over the last eight years. He said he likes HB 266 and the idea of tying the permanent fund dividend to resource development because maybe then the state's resources would be developed as per the state's constitution.

REPRESENTATIVE CARRICK concurred that resource development would be a consequence of HB 266 because Alaskans would have a direct stake in promoting natural resource development. She allowed she will get "dinged" by her constituents for pushing this forward, but said she thinks it is a worthwhile conversation along with conversation within the legislature about how to allow industries to work and develop in Alaska.

6:41:51 PM

REPRESENTATIVE GROH stated that the permanent fund dividend has many purposes and has achieved many good things, but now the original formula isn't stable. He asked whether Representative Carrick has contemplated a royalty trust where Alaskans would each own individual shares of the state's interest in an oil field.

REPRESENTATIVE CARRICK replied she hasn't thought about that concept but thinks it is intriguing and worth looking at.

REPRESENTATIVE GROH suggested that it would be useful to provide a precisely stated statement of how 69 percent was chosen.

REPRESENTATIVE CARRICK responded that under current statute 31 percent [of royalty revenue] is designated general funds. The previous iteration of HB 266 only took a portion of the rest of the undesignated general fund (UGF) to provide for a new dividend formula. She said the dividend is critically important to Alaskans and because oil revenue is volatile and therefore

revenue from royalties is volatile, her perspective for HB 266 was to take as much as is possible to take that isn't already statutorily designated for other purposes.

MR. RELAY added that currently 25 percent of all royalty revenue is constitutionally dedicated to the permanent fund and 6 percent is statutorily designated to [he believes] education, so [HB 266] would be all other royalty revenue.

[6:46:41 PM](#)

REPRESENTATIVE GRAY asked what the next dividend would be if royalties were changed from \$5 per barrel to \$8 per barrel.

MR. RELAY answered that that would be about a 30 percent increase so it would be roughly a dividend of \$2,358.60.

REPRESENTATIVE GRAY inquired about why the Pick.Click.Give provision was included.

REPRESENTATIVE CARRICK replied that she co-sponsored another legislator's bill about Pick.Click.Give to the state government. She said she thought it was a concept that could fit into a dividend bill as an option for how Alaskans could choose to use their dividends.

[6:48:30 PM](#)

REPRESENTATIVE GROH noted HB 266 is about royalties and asked whether it is accurate to say that royalties are set as a matter of contract between the state and oil producers and not a matter of taxes that the legislature could change.

REPRESENTATIVE CARRICK confirmed that that is her understanding as well.

[6:49:28 PM](#)

CHAIR CARPENTER drew attention to Section 7 which states, "(f) Each fiscal year, the legislature may appropriate to the dividend fund an amount equal to 69 percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses received by the state during that fiscal year." He questioned whether, as drafted, the legislature would be obligated to make the appropriation from those sources of revenue. He asked whether it would be fair to say that a formula is being set up by which to define a

sum of money and then the appropriation power of the legislature would decide which account to pay it from.

REPRESENTATIVE CARRICK responded she would get back to the committee but that typically when Legislative Legal Services is asked to draft a dividend formula bill the word "may" is used because that is what has been used in the past. She acknowledged that her personal intent would not be to offer an option to the legislature, so she would be comfortable with changing that.

CHAIR CARPENTER offered his understanding that the sponsor's intent is to ensure that the dollars coming in from this list of royalties and such would go to the dividend payment as opposed to any other source of revenue from which the state could make appropriations.

REPRESENTATIVE CARRICK confirmed that that is her intent.

[6:51:44 PM](#)

REPRESENTATIVE MCCABE asked whether the list of sources in Section 7 (f) would include the lease payments that certain mines are currently paying to the Mental Health Trust for the lands that they're on.

REPRESENTATIVE CARRICK answered that she doesn't know and will get back to the committee with an answer.

[6:53:05 PM](#)

CHAIR CARPENTER announced HB 266 was held over.

HJR 9-CONST AM: PERMANENT FUND; POMV; EARNINGS

[6:53:12 PM](#)

CHAIR CARPENTER announced that the final order of business would be HOUSE JOINT RESOLUTION NO. 9, Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund and to appropriations from the Alaska permanent fund.

[6:53:42 PM](#)

REPRESENTATIVE GROH, prime sponsor of HJR 9, recounted that in the 1970s when the permanent fund was created, the common

accounting rules and legal structures were to have the principal/corpus and the income/earnings, which is the structure set out in the Constitution of the State of Alaska - the principal and the permanent fund earnings reserve account. However, he said, today's understanding is that a single account structure is needed for investments to work successfully.

REPRESENTATIVE GROH explained that HJR 9 would create a single account structure for the permanent fund, along with importing the statutory rules under percent of market value (POMV) draw in the constitution so that a draw cannot be more than 5 percent. This would fix three problems that the trustees of the Alaska Permanent Fund Corporation have worried about for decades, he said. One, it would provide regular and consistent inflation proofing to prevent loss of the real value of the permanent fund over time. This would fix the current problem of intermittent inflation proofing. Two, it would prevent potential overdraft. This would fix the current problem of the appropriation limit being just a statutory rule. Since the limit of 5 percent of market earnings in a year as a trailing average is a statutory rule, the legislature could pass a statute in any year to supersede that limit and spend all the permanent fund earnings. Three, it would fix the potential problem that adverse market conditions could, in a given year, lead to the earnings reserve account becoming insufficient to pay the POMV draw, which pays for roads, schools, public safety, and permanent fund dividends. He noted that a new report on the Alaska Permanent Fund Corporation's website, "A Rules Based Permanent Endowment Model for Alaska," lays out the quantitative modeling aspects of why fixing these problems is important. As well, he added, a single account structure with the 5 percent limit on the draw each year being in the constitution would protect the permanent fund dividend over the long run.

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CHAIR CARPENTER, under a model of no earnings reserve account and a constitutional allowance for up to a 5 percent draw, asked what the effect would be on the corpus of the fund if a draw exceeded the earnings of the fund with an account for the trailing average as well.

REPRESENTATIVE GROH replied that it would provide protection over the long run by having the limits and is the recommended way by experts to prevent having a long run loss in value. By this becoming part of the constitution, the earnings reserve account can be eliminated. Including the draw to no more than 5

percent of the market value [creates] a sustainable basis and keeps the permanent fund growing.

CHAIR CARPENTER posed a scenario where the trailing average is less than the draw. He asked whether in the short run that would be spending from the corpus to pay the annual up to 5 percent draw.

REPRESENTATIVE GROH responded that a single account structure doesn't have a corpus, it has a total value. The single account structure of total value and 5 percent draw builds in inflation proofing. There no longer needs to be reliance on annual appropriations or appropriating being light in some years and bigger in others. A single account structure abolishes the distinction between principal and earnings/income; it is a total market value of the permanent fund itself that doesn't lose value over time because of the way that the draws are limited.

CHAIR CARPENTER posed a scenario of the earnings from the fund over a five-year period not being enough to account for a 5 percent draw, but a 5 percent draw is continued. He asked whether this would draw down the principal of the fund.

REPRESENTATIVE GROH answered that it is protected over time because of the way the earnings work. Under the current model, all the earnings could be blown in one year because there is no legal bar to doing that, which would severely deplete the fund.

CHAIR CARPENTER stated that the sponsor is talking about the earnings, and he is talking about the principal of the fund.

REPRESENTATIVE GROH replied that moving to this structure would abolish the distinction between principal and earnings; it would be a sustainable model for growth over time.

CHAIR CARPENTER said the only way it would be sustainable is that the earnings are greater than the draw.

REPRESENTATIVE GROH responded that the logic is the limit of no more than 5 percent and the model shows --

CHAIR CARPENTER interjected that he understands that. He proffered that if the fund's earnings aren't enough to keep up with the draw, then the principal will decline to pay for that draw, or a draw would need to be chosen that is less than 5 percent to keep the principal at the same level.

REPRESENTATIVE GROH confirmed that that is correct. He said it doesn't require spending 5 percent, rather it requires spending no more than 5 percent, so the legislature could always spend less than 5 percent. The entire logic of modern investment theory is that, over time, limiting the draw to a certain level provides protection.

CHAIR CARPENTER asked whether currently there is protection from spending the corpus/principal of the fund over time.

REPRESENTATIVE GROH answered that if all the earnings are spent in one year then there aren't any more earnings to spend at all, so the earnings would have to be built over time. This is the way over the long run to grow and maximize [the fund] over time while taking some earnings out on a sustainable basis.

CHAIR CARPENTER posed a scenario of spending all the earnings of the current earnings reserve account and asked whether 5 percent or some portion of 5 percent from the principal of the fund could be drawn to pay under current statute.

REPRESENTATIVE GROH surmised that in this scenario spending all the earnings means not putting any money into inflation proofing, which would result in the value going down. The model in HJR 9, he said, allows growth over time and the legislature could choose not to go up to the 5 percent. This model also prevents the risk of unsustainable ad hoc because it looks to have both a fund and sustainable use of the fund's benefits without wiping out the fund or having insufficient benefits.

CHAIR CARPENTER asked whether there is a way to have an ad hoc draw from the principal of the fund under current statute.

REPRESENTATIVE GROH replied that it will shrink if the earnings are overdrawn and there is no inflation proofing; and if all the earnings are spent and there is no inflation proofing, it will shrink by itself. Under HJR 9, inflation proofing is built in.

CHAIR CARPENTER said it would lose value because of inflation proofing but it wouldn't be reduced because of appropriation from the legislature.

REPRESENTATIVE GROH responded that the appropriations are limited over time - no more than 5 percent - and the legislature could always decide to spend less than that.

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REPRESENTATIVE MCCABE offered his understanding that it would be a maximum of 5 percent, so the legislature could do 1 percent.

REPRESENTATIVE GROH answered that as matter of law, yes.

REPRESENTATIVE MCCABE surmised the legislature could do 0 percent.

REPRESENTATIVE GROH replied that as matter of law, yes.

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CHAIR CARPENTER announced that HJR 9 was held over.

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ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 7:09 p.m.