

**ALASKA STATE LEGISLATURE
BICAMERAL PERMANENT FUND WORKING GROUP**

July 8, 2019

9:04 a.m.

DRAFT

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Representative Jennifer Johnston, Co-Chair
Senator Shelley Hughes (via teleconference)
Senator Bert Stedman
Representative Adam Wool
Representative Jonathan Kreiss-Tomkins
Representative Kelly Merrick (via teleconference)

MEMBERS ABSENT

Senator Donald Olson

OTHER LEGISLATORS PRESENT

Senator Natasha von Imhof
Senator Elvi Gray-Jackson
Representative Sara Hannan
Representative Harriet Drummond

COMMITTEE CALENDAR

PRESENTATIONS FROM WORKING GROUP TEAMS

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

SORCHA HAZELTON, Staff
Representative Kelly Merrick
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Co-presented a white paper for a "surplus dividend" on behalf of Representative Kelly Merrick.

RANDY RUARO, Staff
Senator Bert Stedman
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Co-presented a white paper on the surplus dividend amount report on behalf of Senator Stedman.

ACTION NARRATIVE

[9:04:48 AM](#)

CO-CHAIR CLICK BISHOP called the Bicameral Permanent Fund Working Group meeting to order at 9:04 a.m. Senate members present at the call to order were Senators Stedman, Hughes (via teleconference), and Co-Chair Bishop.

Senators Wielechowski and Gray-Jackson were also present.

[9:06:43 AM](#)

CO-CHAIR JOHNSTON announced House Bicameral Permanent Fund Working Group members present were Representative Kreiss-Tomkins, Wool, and Merrick (via teleconference). Representatives Hannan and Drummond were also present.

[9:06:58 AM](#)

CO-CHAIR STEDMAN commented that he was out of state when the Bicameral Permanent Fund Working Group previously met on 6/28/19.

Presentations from Working Group Teams

[9:07:43 AM](#)

CO-CHAIR BISHOP announced the only item on the agenda would be presentations from the working group teams. He said that he would start with the full statutory permanent fund dividend presentation by Senator Hughes and Representative Kreiss-Tomkins.

[9:08:02 AM](#)

REPRESENTATIVE KREISS-TOMKINS presented the white paper on the statutory \$3,000 permanent fund dividend on behalf of the team. He asked his co-author, Senator Hughes, to weigh in with comments or corrections.

He referred to the work product titled "Statutory Permanent Fund Dividend" dated July 7, 2019. He said the co-authors, Senator Hughes and himself, wanted to emphasize several points, some of

which are not in the work product but merit emphasis. He characterized this working group team as having a constructive working relationship and a healthy tension that led to discussions. Some statements in the document may have more equity for one co-author than the other, but they ultimately approached this task with a consensus and concurrence mindset. He related that a huge amount of material was cut [from Senator Hughes' report titled "Statutory Permanent Fund Dividend, Permanent Fund Working Group Assignment," dated June 27, 2019] because they could not reach agreement, but it was done so in a respectful manner. He commented that if the footnotes were eliminated, their co-authored white paper might reach the two-page limit. He recognized Buddy Whitt, staff to Senator Hughes, and his staff, Kevin McGowan, for their assistance.

[9:09:44 AM](#)

SENATOR HUGHES also recognized Sonja Kawasaki, staff to Senator Wielechowski, for her effort to assist the team by providing background and citations. Although the appendix is not part of the report, she said that it was attached to her original report [dated June 27, 2019] and is relevant to the July 7, 2019 report. She said she would also make it available to members.

REPRESENTATIVE KREISS-TOMKINS referred to page 3 that has a list of appendices. He said he would make certain these items are made available [online as PFG meeting documents at www.akleg.gov/basis].

[9:11:13 AM](#)

SENATOR HUGHES said considerable time was spent on the white paper, including that the co-authors spent about five hours and made numerous calls to finalize the report.

[9:11:48 AM](#)

REPRESENTATIVE KREISS-TOMKINS began with a broad summary statement. As co-authors of the white paper for the statutory permanent fund dividend, he and Senator Hughes considered the socio-economic impacts of the statutory \$3,000 dividend in isolation, independent of other budget decisions. Most members would agree that the permanent fund dividend (PFD) is a positive and powerful institution in Alaska. Some bullet points in the white paper speak to the nuances and complexities of the PFD but all things being equal, Alaskans having \$3,000 extra dollars is seen as generally positive. The co-authors also reviewed research, primarily from the University of Alaska, Institute of Social and Economic Research (ISER), that quantifies or

evaluates the effects of the PFD as an institution in the State of Alaska.

He said that the "fund sources" probably reflect the trajectory of this working group, the legislature, and the state as a whole. [The Division of Legislative Finance], the Office of Management and Budget (OMB), Commonwealth North, and many others have evaluated this topic. A basic tension exists between the size of the permanent fund dividend, the size of the operating budget, and the amount of overall state revenue. The co-authors did not discover a fourth missing variable. They agreed that of all of the available fund sources for a \$3,000 statutory PFD, overdrawing or overspending the permanent fund in excess of the Percent of Market Value (POMV) is the least desirable or the worst possible option. The co-authors have different perspectives on the balance of fund sources, but they do agree on that point, he said.

[9:14:47 AM](#)

SENATOR HUGHES directed attention to the appendix list at the top of page 3. In addition to the figures and analysis provided, the co-authors applied the same items to the short-term financials for a full statutory PFD based on the budget before the legislature. In addition, they analyzed estimated figures based on OMB's "right-size" budget for FY2020 [appendix G]. It was based on the data from the National Council of State Legislatures' (NCSL) national average of state and federal funding plus 50 percent. Further, they did additional "runs" using OMB's "50/50 POMV based on the current FY 2020 budget" [Appendix H], and the "50/50 POMV based on the FY2021 (Barnhill) right-sized budget" [appendix I].

[9:15:58 AM](#)

REPRESENTATIVE KREISS-TOMKINS mentioned that the co-authors also discussed potential revenue sources to pay a full permanent fund dividend versus the sustainability of the permanent fund. The team was tasked with the necessity of a "grand compromise," one that would reflect the existence and validity of each of the three major "camps" or perspectives in Alaska: 1. pay the full statutory PFD funded through operating budget reductions; 2. pay the full PFD funded by raising revenues; and 3. reduce the size of the PFD to reflect a balance between the operating budget and revenues. Although he and Senator Hughes are not necessarily in the same "camp," they agreed that a "grand compromise" must reflect the validity of the perspectives and equity from all three groups in order to work. Furthermore, the co-authors believe there is a mathematical imperative and an

unsustainability with existing fund sources. This means that the state does not have the funds from existing fund sources to continue on an interim basis, so it is important that the "grand compromise" happens this year.

9:18:13 AM

SENATOR HUGHES pointed out that she and Representative Kreiss-Tomkins have a slight difference in their perspectives. She suggested that unsustainability from Representative Kreiss-Tomkin's perspective meant that the state cannot continue to pay the current PFD. However, she would frame it from the point of view that it was due to an unsustainable budget at this point. She offered her belief that the [Earnings Reserve Account] ERA is sufficient to continue to pay the PFD. However, she agreed that it must all be considered together.

REPRESENTATIVE KREISS-TOMKINS said that this also speaks to the three viewpoints stated in the report [on pages 3-4.

- (1) the budget itself is unsustainable and needs to be reduced to exist within the current level of revenues thereby allowing payment of a statutory PFD;
- (2) the size of the PFD is unsustainable and must be changed in order to fund services; and
- (3) Alaska needs to enact more revenue to pay a statutory PFD and to fund services.

He said that as Senator Hughes pointed out, a political process consideration for Alaskans and the legislature would ideally mean passing a proposal this year to allow a full year of review, deliberation, and dialogue with Alaskans prior to the 2020 election cycle. This would be preferable to trying to "roll something out" in 2020. The co-authors agreed that any proposal should have an element of "unbreakability" to settle the question and avoid the "year-to-year" back and forth and tug of war that occurs with the PFD. A constitutional amendment or [statutory change] should be a tool employed as part of the compromise to provide that unbreakability and generational certainty for the permanent fund dividend. Therefore, legislators should forward the solution this year. Constitutional amendments must be ratified by the voters so passing a proposal this year would provide a full year's worth of time for dialogue and deliberation with Alaskans. Otherwise, the legislature could pass something in May 2020 and have a bum-

rush through the summer up to the fall election cycle to hold that conversation.

REPRESENTATIVE KREISS-TOMKINS said that he and Senator Hughes would like the record to reflect something else not in the report, which is PFG eligibility. Although this matter is not core to any of the questions, the PFG should consider the PFD eligibility and make recommendations since eligibility is interrelated to the broader and bigger questions. He commented that was a side point of concurrence.

[9:21:41 AM](#)

SENATOR HUGHES emphasized the importance of reviewing eligibility requirements particularly if any changes are made to current statutes. If the historic formula were to be adjusted downward and fewer people were eligible, it would help "bump up" the PFD and make it more palatable for the public. She highlighted some positives in the report's bullet points that Representative Kreiss-Tomkins did not specifically point out today. She encouraged members and the public to read the specific points, no matter where individual legislators are on the scale. She said that the co-authors strived to make [the white paper] readable.

[9:23:25 AM](#)

REPRESENTATIVE KREISS-TOMKINS and Senator Hughes acknowledged the excellent process and working relationship.

[9:23:34 AM](#)

CO-CHAIR JOHNSTON said she appreciated the well thought out white paper that addressed the questions and was grateful that the team reached agreement on a number of issues. She offered her belief that this report will be helpful for the finance committees as the legislature moves forward on this issue.

[9:24:10 AM](#)

SENATOR HUGHES added that she mentioned at the last meeting that she submitted a longer document under the SJR 5 document and appendices are available online.

[9:24:56 AM](#)

CO-CHAIR BISHOP echoed Co-Chair Johnston's comments.

CHAIR BISHOP announced the next presentation would be a white paper on a surplus permanent fund dividend by Senator Stedman and Representative Merrick.

[9:25:22 AM](#)

SENATOR STEDMAN deferred to his staff, Randy Ruaro, and Representative Merrick's staff, Sorcha Hazelton to report.

[9:26:05 AM](#)

SORCHA HAZELTON, Staff, Representative Kelly Merrick, Alaska State Legislature, Juneau, said that Senator Stedman and Representative Merrick were tasked as a team to analyze the impacts of a surplus dividend. In doing so, they assumed that the POMV draw would first fund state government and legislation, the operating budget, and the capital budget. Anything left in the general fund would be divided among Alaskans. The permanent fund dividend amount would be based on a number of calculations. The Legislative Finance Division proposed scenarios such that the PFD would range from \$865 to nearly \$3,000. The white paper did not consider a [\$1,600 or \$3,000] PFD since those were assigned to other working group teams. They also assumed a goal of no deficit. If this proposal became a policy of the legislature, it would be sustainable since the permanent fund dividends would always be paid after funding state government. The co-authors did not necessarily view the surplus dividend as the best option, but it would result in budgetary sustainability.

She said the economic impacts included in the white paper are not necessarily tied to a specific dividend amount. She reviewed the social impacts, which she said were less than were highlighted in other papers. An ISER report suggests that a lower PFD amount would result in lower substance abuse crime. That is the only impact that was different than the other white papers.

[9:28:31 AM](#)

RANDY RUARO, Staff, Senator Bert Stedman, Alaska State Legislature, Juneau, added that the surplus dividend model suggests a higher priority should be placed on funding state government, with the permanent fund dividend being paid with any remaining revenue. However, all state government spending is not optional since some court cases mandate funding, including funding education [Moore v. State of Alaska] and the Kasayulie case. Since some level of funding is required by Article VII of the Constitution of the State of Alaska, there is not a pure option between state spending and paying a dividend. He agreed that the surplus dividend option is a sustainable choice and the legislature has a policy choice to determine what is funded first.

[9:30:11 AM](#)

REPRESENTATIVE MERRICK added that unless the legislature also has a conversation about a spending cap, the size of government will grow, and nothing will be left for a permanent fund dividend.

[9:30:45 AM](#)

SENATOR STEDMAN pointed out that the legislature has a spending limit and the legislature has not erased the dividend for the last 30 years. He said the concept of using surplus revenue in any given year for a dividend is part of the puzzle or one of the building blocks. He suggested that the legislature could "go north" from there as it continues to look to the longevity of the permanent fund to ensure it remains in place for future generations. He said he did not think that the legislature would ever eliminate the permanent fund dividend.

[9:31:56 AM](#)

CO-CHAIR JOHNSTON said she was impressed with all three white papers and that the \$3,000 PFD report suggests that the existence of the permanent fund dividend has given the permanent fund life. It has protected the fund from being used for other purposes, which would otherwise dissipate the fund. She characterized it as a good check and balance.

She asked whether the proposal for a "net dividend" has the same type of check and balance and if it presents the legislature with the stress level needed to restrain government spending. For example, she asked whether legislators would be inclined to cut the budget in order to pay a higher permanent fund dividend under that proposal.

SENATOR STEDMAN answered that the permanent fund dividend is funded via the earnings reserve account (ERA) of the permanent fund, which was not how it was initially structured. This created the intent to have the public pay attention and encourage the legislature not to spend the permanent fund.

He cautioned members not to forget that the permanent fund was created to help the state with its financial challenges after the oil basin was depleted or gone. It has done that, he said. He acknowledged that some tension exists between the dividend and the operating budget. He personally prefers a predictable and robotic structured process, in which the permanent fund dividend would be paid out regardless of the fiscal situation in any given year. He said that could be created by restructuring the formula. He said that the legislature was on the right track

for many years and he hoped that once the legislature restructured the dividend formula it will stand for another thirty or forty years. He urged the legislature and the PFG to have that as a goal.

[9:34:59 AM](#)

REPRESENTATIVE MERRICK said that what Co-Chair Johnston alluded to does give Alaskans an incentive to be involved in the process. However, she respectfully disagreed with Senator Stedman. She reiterated her earlier point that unless current government spending changes, the cost of government will slowly eat away at the funds and nothing will be left. She offered her belief that this viewpoint is one shared by many House minority members.

[9:35:53 AM](#)

CO-CHAIR BISHOP recognized that Senator von Imhof joined the meeting earlier. He advised members that Senator Olson is enroute Juneau via Alaska Airlines and will arrive sometime soon.

CO-CHAIR BISHOP announced that the final presentation is to consider an option based on a \$1,600 dividend by Senator Olson and Representative Wool. He asked Representative Wool to begin the working group white paper based on a \$1,600 dividend.

[9:36:21 AM](#)

REPRESENTATIVE WOOL said he would read the white paper report since many people do not have copies of the report. He said that he and Senator Olson were tasked with considering the \$1,600 PFD, including reviewing the economic impact, social impact, and funding sources. He acknowledged that others have identified the value of having a permanent fund dividend, including that it can lift people out of poverty. The first presentation indicated some disagreement about the ancillary impact on the budget if the legislature were to pay a full permanent fund dividend [of \$3,000]. He emphasized the other report pointed out the effect the PFD has on crime. When the permanent fund dividend is initially paid out property crime decreases, but substance abuse increases. He was unsure what to make of that except that perhaps when the dividend is paid people do not need to steal to obtain their substances for a period of time.

[9:37:52 AM](#)

REPRESENTATIVE WOOL read the working group report, "Alaska with a \$1,600 dividend."

Introduction:

The Alaska Permanent Fund Corporation (APFC, or APF) began disbursing dividends in 1982. Since that time the Permanent Fund has become a fixture in Alaska society. This Working Group has convened because points of view differ greatly on what the future of the Permanent Fund should look like. Regardless of one's stance most agree that the Permanent Fund has changed the way Alaskans perceive the role of their government over the years since its establishment. Notably, Alaska does not have any kind of a broad-based tax, such as an income or sales tax as a source of revenue, and the Permanent Fund is the only fund of its kind that delivers dividend payments directly to its citizens. The Permanent Fund dividend program wasn't created as a needs-based program to inject cash into the hands of low income families, nor was it created with a percentage of overall income as a parameter, it was created as a way to keep citizens more involved in the workings of the Permanent Fund and to incentivize them to prevent the government from reckless spending down of the fund that is meant to provide for generations to come.

REPRESENTATIVE WOOL suggested that the dividend is unique to Alaska. However, he wondered how other sovereign wealth funds stay in existence without a dividend. He recalled that Norway is often cited as one country with a sovereign fund that is doing quite well. He remarked that the 5.25 POMV or 5.00 POMV is another way to keep Alaska's permanent fund going.

[9:39:06 AM](#)

REPRESENTATIVE WOOL said that when the legislature talks about reducing the permanent fund, the percentage of income is often cited since a low-income person losing \$1,000 would be more significantly impacted. However, when the permanent fund dividend was created, it was not billed as a certain percentage of anyone's income. Instead, it was built on longevity. However, basing it on longevity was ruled unconstitutional, so it became a flat dividend. The first dividend was approximately \$300, he said.

[9:40:02 AM](#)

REPRESENTATIVE WOOL continued with "Economic Impacts.

Economic impacts: A 1984 paper published by UAA's Institute of Social and Economic Research (ISER) titled "The Alaska Permanent Fund Dividend Program: Economic Effects and Public Attitudes" outlines many positive economic impacts of the Permanent Fund Dividend (PFD) program and described general support among Alaskans for the program. The report finds that lower-income households are more greatly impacted by the dividend program than higher income households. Adjusted for inflation, the average payout of the dividend has been about \$1100 since its inception. Actual payment amounts range from about \$300 in the beginning to a high of just over \$2000 in 2015. The amount of \$1600 was the amount paid out in 2018 and is higher than the average of the dividend payment amount over the last 10 years. Although there are certainly positive economic impacts of putting \$1.5B into the economy there are also negative outcomes. Anecdotally, we know in recent times many more purchases are done online and go to companies headquartered outside of Alaska, so the money often does not stay in Alaska to help local businesses. Even purchases of airline tickets and box-store purchases have little effect on the local economy.

He corrected an error, noting that the report says the figures were "adjusted for inflation." However, the permanent fund dividend figures in his report are not adjusted for inflation. If so, the average amount would be \$1,600 to 1,700, he said. When the dividend is paid, there is likely a short-term bump in some employment, but most of the PFD is spent on box-store purchases or airline tickets, he said.

[9:41:30 AM](#)

REPRESENTATIVE WOOL continued with "Social Impacts."

Social impacts: As a sovereign wealth fund the Alaska Permanent Fund is something of an anomaly, being the only one to disperse dividends. This has created a unique perspective about the purpose of the fund among Alaskan residents, which has been noted by Angela L. Cummine of The University of Oxford. In a research article published in Basic Income Studies, Volume 6, issue 1 "Overcoming Dividend Skepticism: Why the World's Sovereign Wealth Funds Are Not Paying Basic Income Dividends," general support of universal income is offered: "The PFD program runs irrespective of

whether the State of Alaska is in surplus or deficit. Also, Universal Income programs are generally needs-based so that they help those that need the income and don't go out to every man, woman and child as the PFD does."

Every year, at least 25% of mineral resource royalties must be put into the corpus or principal of the Permanent Fund, regardless of whether Alaska can balance its budget. During several years over the past decade, the APF has grown while the state budget of Alaska has faced deficits. Despite a deficit in 2000, the Legislature appropriated an extra \$250 million for the Permanent Fund principal from the earnings reserve. From the Norwegian perspective, such an arrangement means the APF is not achieving its purpose of being a savings fund. The savings are built on a fiscal illusion of surplus where the obligation to pay dividends becomes detrimental to the long-term financial health of the state. The Legislature becomes constrained, as the dividend becomes an expected component of an individual's income. An October 2003 poll by Dittman Research Corp. found that 64% of Alaskans believed that they were entitled to their dividend, even if Alaska has a budget deficit (Lewis, 2004, P. 81)".

Middle ground can be found in this debate; there are options to provide funding for adequate state services such as K12 education, public safety, infrastructure, Alaska Marine Highway System, and Pioneer Homes, and still provide funding for a reasonable, sustainable Permanent Fund dividend program to disburse checks to eligible Alaskans to spend as they desire.

He added that he has since learned that some universal income programs are not all needs-based programs.

[9:43:40 AM](#)

REPRESENTATIVE WOOL turned to the funding sources. At the time this white paper was written, the budget contained enough for about a \$900 permanent fund dividend.

Funding sources: What funding sources are needed to get to a \$1600 PFD? With the operating budget that the House and Senate passed to the Governor, there exists a \$600 million surplus, which would allow for a \$1000

PFD. To reach \$1600, we'd need an additional \$400 million

Where available funding sources are to get the needed \$400 million?

1. Permanent Fund earnings reserve account
2. General Fund
3. CBR
4. Instituting a school head tax
5. Abolishment of oil tax credits
6. Instituting Income Tax

Given the above sources, it seems the CBR is the only one that can be achieved. Tapping into the earnings reserve goes against [Senate Bill] 26 and also will overdraw the fund and put it at risk. Tapping into the general fund will cut programs beyond a reasonable level. Any type of tax increase is very difficult politically and likely will be vetoed by the Governor.

[9:44:45 AM](#)

REPRESENTATIVE WOOL commented that [Governor Dunleavy's vetoes to the operating budget were just released] and are approximately \$400 million, coincidentally. Many legislators have heard these cuts have created a bit of a backlash, he said.

[9:45:10 AM](#)

REPRESENTATIVE WOOL turned to opportunity costs. He pointed out a typo and read, "It is NOT obtainable without making cuts to state operations" He continued.

Opportunity cost or gains with that level of dividend: A \$1,600 dividend is a negotiated amount and doesn't directly correlate to any specific equation. It matches the dividend disbursed in 2018. It is [not] obtainable without making cuts to state operations because we don't foresee having a surplus of \$1 billion for PFD checks given our current revenue/budget situation.

[9:45:38 AM](#)

REPRESENTATIVE WOOL turned to the last section, "New equation proposal from Rep. Wool." He clarified that this proposal does not reflect Senator Olson's viewpoint.

New equation proposal from Rep. Wool:

If an equation is needed for a \$1600 PFD, I may have something that strikes a good compromise.

[House Bill] 132 is a bill I introduced that would use oil revenue for the basis of the PFD and not use the earnings of the fund itself. This would allow the PFD to fluctuate as the price and production of oil does and would only allow large checks to be paid out as long as large revenue was coming into the state from the resources that we export. This would prevent the state from being obligated to pay a large PFD in the event that oil revenue is low, similar to the situation we are in now.

I understand that many people are reluctant to make such a large change in how we calculate the PFD and feel that the PFD should be more of a guaranteed disbursement regardless of state resource revenue. This answers the question: "Should we pay out a PFD check if oil revenue goes to zero?" Some would answer no and in that case a PFD based on oil revenue is appropriate. HB132 uses the value of 40% of oil revenue, which would generate a PFD of about \$1400 based on this year's oil revenue.

If people feel that a PFD check should be disbursed even if oil revenue is zero, then I suggest the "20:20 Plan." The 20:20 plan would use a value of 20% of oil revenue and 20% of POMV draw to both contribute to the PFD check. The POMV draw value is very stable and predictable and isn't as volatile as oil revenue and would provide a guaranteed base for the PFD. The oil component would add to the POMV portion depending on how the state's #1 industry is performing that year. People equate the PFD to oil revenue and creating a more substantial link to oil and possibly gas production is a good way to keep the public involved. The 20:20 plan would yield a \$1600 PFD using current revenue and POMV values.

[9:48:15 AM](#)

At-ease.

[9:49:23 AM](#)

CO-CHAIR BISHOP reconvened the meeting. He made closing remarks, noting some common themes and threads throughout the three

[white papers]. He thanked the working group teams for their work.

[9:50:25 AM](#)

CO-CHAIR JOHNSTON made closing remarks, expressing gratitude for the time and effort that went into each of these papers.

[9:51:07 AM](#)

CO-CHAIR BISHOP adjourned the Bicameral Permanent Fund Working Group meeting at 9:51 p.m.