

ALASKA STATE LEGISLATURE

BICAMERAL PERMANENT FUND WORKING GROUP

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Transcript

Bicameral Permanent Fund Working Group

Alaska State Capitol Senate Finance Committee Room June 13, 2019, 9:30 a.m.

Representative Johnston: I call the meeting of the joint House and Senate Permanent Fund Working Group to order. Today is Thursday, June 13, 2019, and the time is 9:33 a.m. We are meeting in the Senate Finance Room in the State Capitol. I want to remind everyone to turn off their cellphones. This is Representative Johnston and today I am joined by Representative Wool, Representative Kreiss-Tomkins, and Representative Merrick.

Senator Bishop: Thank you, Madam Chair. Good morning, this Senate has the full complement of Senator Stedman, Senator Hughes, Senator Olson, and myself, Senator Bishop.

Representative Johnston: And thank you. We are joined also by Senator Birch and Representative LeBon and Senator Giessel. I want to thank our LIO monitor, Nate Williams, for assisting us today. Yesterday we requested that each member email their expectations and desired deliverables from this committee and our time together. And, thank you all for your thoughtful responses. Today we intend to have a deeper dive on how we, as co-chairs, can help facilitate these meetings to make sure we have a pertinent presentation and research available. And, we'd like to set some ground rules for the meeting operation. We will run our meetings with the normal decorum, through the chair. Are there any questions or business to come before the working group before we begin? Now, we'd like to have each working group member to outline their expectations and deliverables, and since some of you spoke generally overall at our first meeting yesterday, I think I will be starting at the end of the table and we'd like to first call on Senator Olson.

Senator Olson: Thank you, Madam Chair. We look at this very important issue that's before the people and people are very passionate about this throughout the State. I think it's incumbent upon us to have the decision and a recommendation that is going to be able to, at least satisfy many of the people out there for whatever reason that they have that they're invested in the Permanent Fund Dividend. Because so many people are watching.

It's one of those things that I've never seen any issue come before the State, in the almost 20 years that I've been here that has been, I wouldn't say divisive, but has been in a positive way, something that we look at that's important to people and the people feel very strongly about it. And, so, the idea that we need to go ahead and come up with something that will be to the satisfaction of the majority, as well as in a statesman's like manner, not to go ahead and bankrupt the State, or defeat the reason the Permanent Fund Dividend was put in place, which would be the diminishment of the amount and/or the dissolution of the fund that it comes from.

Representative Johnston: Thank you, Senator Olson. Representative Merrick.

Representative Merrick: Thank you, Madam Chairwoman. It is my goal with this working group to be an honest and positive voice for the minority. As the minority member of this group, I feel a strong responsibility to make sure that all voices are heard and all ideas are given thoughtful and appropriate consideration, no matter who the ideas come from. I also think, as the only freshman on this committee, I have a unique perspective as I have not previously been involved in these negotiations. So, I think I will bring, kind of, a fresh, new perspective and I really look forward to learning a lot and coming up with something that will be reasonable going into the future, and I want funds that will be sustainable. And, I have children and I know when they have grandchildren, I want the funds to be around and protected for them. Thank you.

Representative Johnston: Thank you, Representative Merrick. And, when you mentioned the minority, are you saying the minority member from the House?

Representative Merrick: That is correct.

Representative Johnston: Thank you. Senator Hughes.

Senator Hughes: Thank you, Madam Chair. I should pull that a little closer. I'm going to actually, if, with your permission, read what I put down because I thought about it and tried to be pretty succinct with what my expectations are. A proposal for a PFD which will allow a healthy and steady growth of the Permanent Fund over time. A proposal for a PFD which will be fair and agreeable to Alaskans. A proposal for a PFD which will be consistently applied annually, not subject to legislative or political whims. A proposal for a PFD which will allow a fair and agreement revenue stream for government. A proposal for a PFD which will allow a consistent annual revenue stream for government, not subject to legislative or political whim. A proposal for a PFD which will not allow growth of the State budget beyond the inflation rate.

Representative Johnston: Thank you, Senator. And I'd like to recognize Representative Hannan has joined us. Representative Kreiss-Tomkins.

Representative Kreiss-Tomkins: Thank you, Madam Chair. And, in the interest of succinctness, I think everything Senator Hughes just said, more or less, aligns with, sort of, an outcome, an envision that I would share. There's a lot of shades of grey in there, but I think we all fully recognize that, and I think those underlying principals fully resonate with me.

In addition, a couple of thoughts for the working group to possibly consider, at least for me being, as the good Senator from Sitka pointed out, the baby in the room, not being around when

the PF and PFD was set up, I, to some extent, feel it would be helpful to study the founders of the PFD's intention and vision. Since I certainly wasn't around then and I think it often gets, sort of, ban aided out and represented. I think, perhaps, at times, by people on all sides of the debate, in a way that optimizes a political argument, sometimes, and I think start taking a deeper, thorough dive could be helpful, if just for me.

A second thought, for consideration, would be seeing other sovereign wealth funds around the world, and sort of, the positive and negative case studies. Sovereign wealth studies that have been managed well in perpetuity for the benefit of future generations, as well as sovereign wealth funds that have been mismanaged, spent down or in effect otherwise destroyed for whatever reasons, and sort of, understanding that spectrum of best case scenario and worst case scenario.

And, finally, I'm not, sort of, I know the Governor has championed this, but I'm not necessarily in alignment with the Governor on every single issue, but I'm not necessarily categorically adverse to exploring the possibility of different advisory questions for the voters, provided those questions, at least in my mind, are framed with all appropriate context. And that's at least something that the working group could consider.

Representative Johnston: Thank you. Senator Stedman.

Senator Stedman: Thank you, Madam Chairwoman. I think what we need to do is build a foundation first, and, as referenced in a couple previous remarks from several members of the committee, is to go back in history and lay the foundation down so we all understand collectively around the table, when and how and why the Permanent Fund was put together. Also, the changes over the years, and there's at least, I think, a dozen plus on the formula.

Also, I think, Madam Chairman in doing so, when we look at the sovereign wealthy funds around the world and how they're managed, because that's basically the cornerstone of the Percent of Market Value approach that we review also the rate of withdrawals.

Right now, they are at $5\frac{1}{4}$ to be 5. And, you know, where those rates are and aren't, and who has advantages if the rate is higher, versus lower. And, we base whatever conclusion we have off of that particular draw rate, and then obviously subject to some kind of split relationship of some format. If we recommend embedding in that, or we end up recommending the current formula stay in place with some modifications. But we also need to look at the future and what the expectations are of the growth of the State, dealing with population growth and inflation, under expenditures and then on our revenue side. And in doing so, take a look at the permanent fund and how it has grown in the last forty years and the historical direction it started with the dividend.

And, I think, as I recall, it was basically, it had earnings, a trending earnings weighted average, and then that was split 50/50 between the dividend and the State. And in this case, the State has not accessed it's 50% for almost forty years, except for the last couple, and the dividend is paid out of the other 50%. So, what started out at 50/50 is not in the aggregate value of the Permanent Fund when it was less than a billion dollars.

It's not 50/50 today, with one side letting its revenue sit in there and accumulate, and the other partner, the 50/50 partner, taking it out in dividends. So, we need to take a look at them.

We also need to take a look at whatever recommendations, and if we have say four or five, or however many it is, concepts of doing the dividend split issue, what it looks like at \$65 billion, is where we are at today, and what it looks like at \$120 billion or, for that matter \$180 billion.

The Permanent Fund has been doubling almost every decade. And it's going to slow down. At least the last three decades it's doubled, almost every decade, within a year, one way or the other. It's going to slow down with the 5% draw or a 4½ % draw, or whatever draw we're going to put on it. So, it'll double at a slower rate, but it's going to double. And then it's going to double again.

And when we go back and look at the minutes of the original dividend concept, I think we're going to find they never envisioned the Permanent Fund at \$65 billion, and, the fact, you know, it was probably 20% of that number or less. So, we need to have something, a dividend structure for the public, that works at \$65 billion, and it needs to work at \$120 billion and it needs to work at \$180 billion. So, we can have a shot at another forty years of stability.

And, if we can accomplish that, then we've done, I think, a very good job. I don't personally believe it's a Republican/Democrat political issue, or an urban/rural. It's across the State, regardless of your political affiliation or none. Most people are independent or non-partisan or don't care. The Rs and the Ds are in the minority. Frankly, you add them all up with the rest of the State. So, I think a good history lesson would lay a foundation and would help focus the debate.

What I don't want us to do is come out with a solution and then fit the analysis to the solution. I would like the analysis to work along and some of the solutions, and I expect several options, to default out of the analysis. Otherwise, we're just putting a history document together and in order to go back and argue the same thing.

So, that, Madam Chairman, that's kind of the general jiff of what the direction I'd like to see this go. And, I think, if we can come up with something that lasts thirty or forty years, we've done our jobs. And, it's going to take a little bit of work and it's going to take some forward projections. And, for those watching at home, Legislative Finance is already working on some of that stuff. The Permanent Fund we can bring in. For the Permanent Fund we can bring in OMB on expectations of the State and expenditures. And then take a lot of that with a grain of salt, because if we asked them thirty years ago to tell us, in 1990, if we asked this committee where we were going to be in 2019 or 2020, in fiscal position or structure of the workforce in this State, and the structure of our oil and gas fields, they probably would have missed it a little bit. So, we just, you know, it will give us a range of possible outcomes. It won't give us the exact answer.

Representative Johnston: Thank you, Senator. Representative Wool.

Representative Wool: Thank you, Madam Chair. I agree with what a lot of people have said. Most recently what Senator Stedman said, which is to come up with a formula and see what falls out of it, as opposed to coming up with a number, and reverse engineering a formula to fit that number.

It's easy to pull a number out of the hat like we've done in the past, say \$1,600, and figure out what kind of percentage of POMV split that would be, and say, well that's our formula, it comes up with \$1,600.

But I think we have to look backwards, before we look forwards. When the Permanent fund, according to some research I did for a bill that I had recently, in 1980 was about \$500 million. And the first check was about \$300, although the first check was a combination of three years, as we will be reminded soon. But, about \$300, and right now we are at \$3,000. So, it's a multiple of ten that's increased and the Permanent Fund itself has increased by more than a multiple of ten, but for simplicity I'll say tenfold as well. Now, if we're going into the future, and it multiplies by ten again, are we looking at a \$30,000 Permanent Fund check? And is that something that anyone really thinks is, whether it's sustainable or affordable, is it something that we want as a State? That's a question and who knows when that would be at the number, if ever, but these are questions that I think we should look at.

The other question I bantered around with some people, having to do with the inception of the fund, which was to cover a time. The Permanent Fund was created because oil was finite, and if we put some money away, we could live off the earnings of, which would not be finite in theory. So, if oil revenue were to go to zero sometime in the future, I certainly don't want that to happen, but it's a finite resource. If that were to go to zero, we would have a fund, would we still pay a Permanent Fund Dividend with no oil revenue? And that's a question that has been kicked around. I kicked it around with some colleagues, and I think that's a question that we should think about. But, if we had a \$200 billion fund, we could live off of it as a State and take 5% every year and have \$10 billion a year, which is plenty at this point.

But, as to what I would like to see come out of this committee, I'd like to see us address some tough questions. Like a couple I just posed. Also, I would like to see us realistically look at some formulas and what's fair, what's equitable, what's sustainable, and what would work now and forty years from now.

I think the full PFD question being posed to the public is valid, or certain aspects of it, if it's what people want. But I think any question that goes out, should also have the converse or the consequence of that question. Not just, do you want a full PFD or not, but what are the result or what's the sacrifice going to be.

And I gave this analogy in our committee, but if I went to my kid's fourth grade class and said, do you guys want ice-cream every day for lunch. They would probably say yes. And I said, well, do you want to have high blood pressure, cardiac problems, obesity and diabetes to go along with that, and maybe a shorter life expectancy? They might think about it. Hopefully they're mature enough to think about it. But, I think we should all be mature enough to think about those kinds of results.

So, I would like to see these kinds of questions be bantered around in this committee, and I'd like to see the result. Maybe a few different options that we can put towards our colleagues and hopefully they give it serious consideration, and not just what the ramifications would be in the next month or year, but what the ramifications are for the next few generations. Thank you.

Representative Johnston: Thank you all. I need to get closer here, sorry. Before we adjourn today, we would like to ... This is a working committee. We'd like to form working teams and assign some research and deliverables. And, as you all know, part of our deliverables is we have promised there's going to be a dividend. And, while this assignment might sound like the deliverable will be one of these three, we're not necessarily saying that, but it will be research into three different sizes of a dividend.

And, there will be workgroups of two, and you'll be paired, and you're going to have a wonderful time together exploring. First, I would like to suggest that Senator Hughes and Representative JKT work together on a \$3,000 dividend, and what it means for Alaska. They will research the economic impacts, the social impacts. Where the available fund sources are for the dividend and the opportunity costs or gains associated with the level of the dividend.

Next, I will ask Representative Wool and Senator Olson to work together on a \$1,600 dividend and what that means for Alaska. So, again, it will be economic impacts, social impacts, where the available fund sources are for the dividend, and the opportunity costs and gains associated with that level of a dividend.

Finally, Senator Stedman and Representative Merrick, will work together on what we will call either the surplus, or excess dividend, and what that means for Alaska. And that will have the economic impacts, the social impacts, what available fund sources for the dividend and the opportunity costs or gains associated with that level of dividend.

Are there any questions as far as this? Senator Stedman.

Senator Stedman: Madam Chairman, I don't know what a surplus dividend is?

Representative Johnston: It is what is left over after we found the revenues and expenses of the State.

Senator Stedman: Okay. And on that revenue end, I think the, well, the dividend should not drive the analysis, in my opinion. I think that was a flaw in Senate Bill 26, where the revenue needs drove the payout rate. That is completely backwards.

The portfolio, which is the Permanent Fund, needs to be managed regardless of the financial needs of the State. And, that portfolio needs to be structured and managed to ensure its perpetuity and have a reasonable draw that doesn't jeopardize that.

Whatever that draw is, dollar wise and percentage wise, whatever defaults out, that's what it is. It makes no difference if we are running a deficit. It makes no difference if we're running a surplus. But whatever that numeric is, that is the revenue stream that the sharing relationship between the dividend and the State needs to center around.

So, I'm very hesitant to have the dividend drive the portfolio, the Permanent Fund. It needs to be unmolested, by whatever financial structure and expenditures and revenue that we have in the middle of this table. And, we need to leave it alone, in my opinion. So, we will endeavor to do whatever the Chairmen's ask, but the portfolio needs to stand on its own and we're just recipients of a gift from previous generations to have \$65 billion to start with.

Representative Johnston: And just to be clear, I'm not quite sure, are you suggesting that with your assignment, we're not taking into consideration the structured draw?

Senator Stedman: No, I'm saying, you know, well, the structured draw.

Let's back up a little for those watching at home. When we refer to a structured draw, would be a set draw limit. Right now, it's 5¼%. And, to be 5%. And if we breach that, that breach overdraw creates an unknown for the Permanent Fund, or instability for the Permanent Fund management. So, that's also unacceptable, and we need to recognize that.

If that starts driving our investment decisions and altering them, clearly it would alter them in the direction of having excess liquidity than we normally have, and that could change our asset allocation and it could, you know, basically, hinder or lower the rate of return.

So, at 5%, my personal opinion, and I think we've had, in fact I know we've had, presentations here at the finance table, takes virtually all of the growth of the Permanent Fund out, after inflation. It's too high. And that's a policy call.

If the current generation wants to take all of the future growth to itself, that's a call. They can do that. Some of us would like to leave more for our descendants, and live a little less, have a little less currently. And, we will have those discussions. But, therein lies a dilemma on how to come up with even a starting point. So, the portfolio needs to be basically siloed. The Permanent Fund siloed, and so we don't impact it.

Representative Johnston: So, Senator Stedman, what I would like to suggest is this, and this is just an initial research project for the team. But what I'd like to suggest is what we're looking for is for this year, with this structured draw, with our current fiscal situation, your assignment with Representative Merrick is to examine the fund source. Examine the opportunity gains and losses, and to examine the social and economic impacts, which you are starting to address in your comments, but this will be, what we would like, is a report from these groups. We will continue this discussion, we will continue research projects, but this is just the initial. We have a short period of time and we have a lot of deliverables. And, so, we want to leave here with a beginning work project, and that is what this is. Senator Hughes.

Senator Hughes: Thank you, Madam Chair. I'd like to roll back a little bit. When we were talking about deliverables earlier because I basically was looking at the final outcome. I would like to say I agree with some of the items that people are wanting, the examination of sovereign wealth funds, the history, but I'd like to get on the record, I'd also like these history of the public's involvement insofar as education efforts when proposals were being floated. What occurred when things were put on the ballot, and those results related to the PF and PFD.

And also a history of any polling survey results, including the most recent. So, that's history of public involvement because, as I said yesterday in my opening comments, I believe that Alaskans will ultimately have the final say. So, it's important that they are part of this process.

And the second thing, as far as what we're bringing forward with the history and examination, is I would like to request that any projections that Mr. Teal and his fine legislative finance team

present to us, that we also ask the same questions, and get those same projections, from the economic research group within the Department of Revenue. So that we all know, that you can do things with numbers and percentages and such, so I think it's going to be very important for us to get a balanced presentation from more than one group.

Representative Johnston: Thank you. Senator Bishop.

Senator Bishop: Yes, I just have a quick comment. So, Senator Hughes, there will be an attachment coming from the co-chairs office on one particular item you just asked. So, yesterday I had my staff pull up the advisory 1999 vote. The pamphlet, the actual language, and then the supporting group that was advocating for and then Governor Hammond's opposition. So, you've got all three documents there plus the, I think it was a 87% [83%] vote is how it came out. So, good to read and you're going to read through this stuff as we see it, all of you.

And we just had this conversation yesterday, no, they had it in 1999. It's the same conversation. So, in the history lesson, it's going to be great, because that was one of the goals we stressed yesterday.

Representative Kreiss-Tomkins was right on, because when you read these documents. You know, when I tell a story, I'm just talking about myself, sometimes I might not want to include the last two sentences if I'm selling something, you know what I mean? But, in this case, you're going to talk about Governor Hammond, but then you're going to read the rest of what Governor Hammond said. It is in the documents. So, you've got a true picture of what so-and-so said. The rest of the story, as they say. Thank you.

Representative Johnston: Thank you. Senator Olson.

Senator Olson: Thank you, Madam Chair. I just, my real question has to do with the practicality of what's the timeline? When do you want these recommendations done by? Or when would you like a preliminary recommendation, and then a final recommendation?

Representative Johnston: We will be working on this historical deep dive, and we're hoping to do that next week, and I would like, and I think we need to talk about this, but the following week to have your reports back.

Senator Olson: The first part of July?

Senator Bishop: Yes.

Representative Johnston: Yes.

Senator Bishop: Madam Chair, we definitely by next week, we want to do the history walk through with the group, and the public.

Representative Johnston: Yes. Representative Merrick.

Representative Merrick: Thank you, Madam Chairwoman. Just if we're talking specific deliverables, I concluded this in my email, I just wanted to put it on the record. I'm interested in

finding out how the spending cap would affect the Permanent Fund Dividend? Also, look at changing the eligibility requirements for the Permanent Fund, and the pros and cons of perhaps looking at quarterly or bi-annual payouts and how that might affect things. Thank you.

Representative Johnston: Thank you. Any other? Representative Wool.

Representative Wool: Thank you, Madam Chair. If I look at these assignments that you gave out just a moment ago, it looks like a low, medium and high.

The surplus, which it's latest analysis around \$900, then there's a \$1,600, and then there's a \$3,000. So, we have low, medium and high. What the economic impact, the social impact, etc. I guess I just want to be on the record as asking, or requesting, that not only do we look low, medium, high, but the, sort of, foundational reasoning. Not just reasoning, but the foundational formula that would deliver those numbers. Well, again, I guess, what I said earlier. What I don't want is to reverse engineer. Pick a number and then come up with a formula that gets to that number. So, I do want to spend some time working on an underlying formula and then seeing what falls out of it. Sort of a more scientific approach, I guess.

Representative Johnston: Thank you for those comments. I think we all agree that we want to get there. We just have a very short timeline, so we want to make sure that we're doing both things at once, and I don't feel, or the co-chairs. And, our co-chair did a great job of saying this yesterday, it's not I, it's we around this table. We have a very short timeline and high deliverables, and we hope to do a good job.

Representative Wool: Thank you.

Senator Bishop: This last comment from myself, because I know some of us have the Floor coming up and some other commitments at 10:30 etc., but Senator Stedman is right. Everybody is right in the comments around the table, but we've got a compressed timeline. He's right on the mark with his comments, and I'll just say it, we're telegraphing for, keying up for the next meeting when we come back as a full committee. We can only do so much work in the amount of time we've got. He's exactly right, and this history document is going to prove a lot of that. We can only do so much in this timeline, and so there will be more of this. This is going to be happening in the full committee, when everybody is back staffed at 100% as well. So, thank you.

Representative Johnston: Thank you. So, as you all gather, at our next meeting, we're going to take a deeper dive into the history of the Permanent Fund and the dividend. And, we will be going back to Statehood. We'll be looking at constitutional questions, and we'll be looking at Supreme Court decisions. We'll be looking at our statutes, and how that relates and with different departments.

We do not have the date set for this meeting, nor the place yet. We're working as fast and furiously as we can on that. We are meeting with the Administration this afternoon to try to work out the details on their participation. So, I will get to you, or we both will, as soon as possible to give you an idea of where it is and when it is. And is there anything else that needs to come before this group today? Okay, the time is 10:08 a.m. and this meeting is adjourned.