

## Lundgren Alaska Banker Association Legislature Testimony July 9 2019

My name is Steve Lundgren, I'm president and CEO of Denali State Bank in Fairbanks, Alaska.

I appreciate the opportunity to address you today on behalf of the Alaska Bankers Association.

The Alaska Bankers Association represents all 7 banks that have physical offices in Alaska.

Combined, we hold over \$12 billion in deposits, and employ more than 2,500 banking professionals across 127 branch offices statewide.

We compete head-to-head with each other for deposits, loans, and customers, however we come together thru the Alaska Bankers Association to monitor and weigh-in on issues that impact the Alaska economy and our banking industry as a whole.

We rally to support issues we believe are good for Alaska, and we rally against issues we believe will harm Alaska, Alaska residents, the Alaska economy, and our customers.

We travel as an association to Juneau every year, and we've met with many of you. Our primary speaking point over the last several years is to advocate for a stable budget climate and a long term fiscal plan, I emphasize "long term", that includes withdrawals from the permanent fund, and that results in in soft landing for our economy.

My purpose for speaking to you today is to tell you that all 7 banks in Alaska are aligned in our request that the Legislature override the governor's vetoes.

At our nature, we're fiscal conservatives and we support right-sized government. We believe the legislature has moved in this direction in recent years, and we support the legislature's budget.

We believe that a "long term" plan that allows time to absorb budget reductions with a planned approach is better than an immediate budget shock to the state that we believe will result in immediate and enduring economic harm.

We're concerned about the extreme consequences to our local and state economies if no action is taken to override the governor's vetoes. The impact of these vetoes to our university, public health system and local communities is too much too soon. Fewer employees and students means fewer residents and fewer dollars circulating through our economy, and reduced business activity. There will be downstream effects, prolonging uncertainty and increasing risk, leading to higher costs for Alaska's businesses and families and a lower level of economic opportunity in the future.

Private capital investment needs a stable state budget climate utilizing a combination of spending less, a rules based framework for withdrawals from the Permanent Fund, and securing new revenues.

We support a comprehensive, stable and sustainable approach employing these options over a more measured time frame to avoid erosion of our education and public assistance institutions, and business and consumer confidence.

Our future depends on our leaders reaching consensus on a stable, sustainable budget solution amid wildly diverse and passionate opinions. The legislature took the bold step of reducing the budget by \$190 million in one year, an additional \$379 million in vetoes goes too far.

We have heard that private spending will migrate to the state to offset the decrease in public spending. We don't believe private spending will be available to offset the loss of funding to the university and to other programs either cut or lost through the vetoes.

Our member banks have many individual concerns that may impact one bank differently than other banks, however we all come together to support a full veto override.

As an example, I'll share 2 individual concerns of my bank.

Of our 77 employees, 21 have either graduated from or have attended University of Alaska Fairbanks. The budget vetoes put the future of UAF at risk. I don't know where my bank will find the local educated talent I need to run Denali State Bank without UAF. Many of my bank business customers have the same concern.

Secondly, all banks have a significant investment portfolio of many millions of dollars. Our portfolio includes government bonds issued in Alaska, as does all our member banks. I received this unsettling communication Monday from one of our outside investment advisors.

*"Denali State Bank owns a University of Alaska Bond. Last week, the governor vetoed \$135mm in state funding dollars due to the university for FY2020. This would be a 41% YoY decrease in state funding and will have an enormous impact on the university and will lead to various downgrades if the state legislation approves of this veto. Both S&P and Moody's have already put the underlying rating on reviews for downgrade. No precedent stands for a YoY funding cut such as this, especially for a state's flagship university. The only somewhat similar situation happened in Illinois during their budget impasse, when various colleges and community colleges experienced multi-notch downgrades after their state funding dollars were cut. We wouldn't be surprised to see the University carrying a BBB rating if this is their new normal."*

So you can see that people are watching, and this is a current example of the potential far reaching negative impacts if the vetoes are not overridden.

In closing, I can't put into words how serious this is and how important it is to override the governor's veto package. Please vote for a full veto override.

Thank you for the opportunity to talk with you, and I'm happy to respond to questions if you have any.