



THE STATE  
*of* **ALASKA**  
GOVERNOR BILL WALKER

**Office  
of the Governor**

OFFICE OF MANAGEMENT AND BUDGET  
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February 16, 2018

The Honorable Paul Seaton  
Co-Chair, House Finance Committee  
Alaska State Legislature  
State Capitol, Room 505  
Juneau, AK 99801-1182

The Honorable Neal Foster  
Co-Chair, House Finance Committee  
Alaska State Legislature  
State Capitol, Room 410  
Juneau, AK 99801-1182

Dear Co-Chair Seaton and Co-Chair Foster:

Thank you for the opportunity to present the Governor's FY 2018 operating budget overview before the House Finance Committee on January 18, 2018. The following is in response to questions posed by the committee during the overview for distribution to the members.

*Representative Pruitt: Requested more information on the oil and gas tax credit financing proposal*

A concept paper describing the oil and gas tax credit financing proposal is included with this letter (Enclosure 1). A link to the paper on the Office of Management and Budget website is also copied below:

[https://www.omb.alaska.gov/ombfiles/19\\_budget/PDFs/Tax\\_Credit\\_Certificates\\_Bond\\_Financing\\_Program\\_Summary\\_12-15-17.pdf](https://www.omb.alaska.gov/ombfiles/19_budget/PDFs/Tax_Credit_Certificates_Bond_Financing_Program_Summary_12-15-17.pdf)

The legislation can be found at:

<http://www.akleg.gov/basis/Bill/Detail/30?Root=HB%20331>

*Representative Gara: Why is the discount to oil companies set where it is? Instead of targeting a 10 percent reduction in credit payments could the discount be 50 percent or more?*

The intent of this proposal is to find a balance between discounting the credit payments too much, which could harm Alaska's oil industry, and paying out more than the state can afford given current revenue expectations. As such, the decision was made to target, on a net present value basis, a deficit neutral buy-back. Additionally, this new buy-back program creates a payment floor. This means that if major producers wish to purchase credits from explorers, they would have to buy them back above the floor (initially proposed at a 10% discount, adjusted per HB331/SB176). Should a major producer wish to purchase credits above the state's discount level, the state will pay the full face-value of the credit in lost revenue.

*Representative Guttenberg: Requested information about the State's broadband costs.*

A report on state broadband costs is attached to this letter (Enclosure 2).

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*Representative Wilson: Requested detail on half of the budget is sent out to communities.*

More than 50 percent of the state-funded share of the FY2019 budget is sent as direct payments to communities, health care providers, oil companies and individuals. Some of the major components of these payments for FY2019 include:

- K-12 formula and pupil transportation funding to school districts: \$1.3 billion (24 percent of UGF budget)
- Permanent Fund Dividends: \$818.8 million (15 percent of the UGF budget)
- Medicaid payments to providers: \$691.4 million (13 percent of the UGF budget)

The table below details these UGF payments as well as a geographic breakdown that includes all funds (UGF, DGF, other, and federal) for the state's largest cities.

FY2019 Governor's Proposed Budget (Unrestricted General Funds)		Estimate of FY2019 Payments (All funds, includes federal)		
Program	\$millions	Anchorage	Juneau	Fairbanks
K-12 Formula and Pupil Transportation	\$1,262.0	\$347.3	\$39.8	\$129.2
Medicaid Payments to Providers	\$691.4	\$1,186.7	\$91.2	\$193.6
Retirement Payments	\$245.5	\$57.1	\$15.1	\$7.1
School Debt Reimbursement and REAA School Construction	\$125.5	\$34.1	\$9.7	\$9.6
Senior Benefits	\$20.0	\$9.1	\$0.7	\$1.7
Public Assistance	\$85.2	\$101.0	\$8.7	\$22.2
Foster Care	\$36.4	\$11.5	\$1.5	\$4.6
Oil and Gas Credits	\$27.0	n/a	n/a	n/a
Permanent Fund Dividends	\$818.8	\$310.4	\$34.8	\$89.8
Community Assistance Payments (PCE)	\$30.0	\$4.5	\$1.7	\$2.9
DBH Prevention/Intervention and Treatment/Recovery Grants	\$35.9	\$27.0	\$4.2	\$7.3

Please let me know if you have additional questions.

Sincerely,



Pat Pitney  
Director, Office of Management and Budget

Enclosures

1. Tax Credit Certificates Bond Financing Program Summary
2. State of Alaska Broadband Costs Report

cc: David Teal, Director, Legislative Finance  
Darwin Peterson, Director, Governor's Legislative Office