

HOUSE FINANCE COMMITTEE  
January 20, 2016  
1:33 p.m.

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CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair  
Representative Steve Thompson, Co-Chair  
Representative Dan Saddler, Vice-Chair  
Representative Bryce Edgmon  
Representative Les Gara  
Representative Lynn Gattis  
Representative David Guttenberg  
Representative Scott Kawasaki  
Representative Cathy Munoz  
Representative Lance Pruitt  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

David Teal, Director, Legislative Finance Division; Lacey Sanders, Fiscal Analyst, Legislative Finance Division; Kelly Cunningham, Fiscal Analyst, Legislative Finance Division; Danith Watts, Fiscal Analyst, Legislative Finance Division; Amanda Ryder, Fiscal Analyst, Legislative Finance Division; Representative Cathy Tilton, Representative Daniel Ortiz, Representative Andy Josephson, Representative Adam Wool, Senator Pete Kelly, Senator Mia Costello.

SUMMARY

FY17 GOVERNOR'S BUDGET & FISCAL SUMMARY: LEGISLATIVE FINANCE DIVISION

Co-Chair Neuman reviewed the schedule for the current meeting.

^FY17 GOVERNOR'S BUDGET & FISCAL SUMMARY: LEGISLATIVE FINANCE DIVISION

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DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, introduced himself and invited his staff to introduce themselves.

LACEY SANDERS, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, introduced herself.

KELLY CUNNINGHAM, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, introduced herself.

DANITH WATTS, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, introduced herself.

AMANDA RYDER, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, introduced herself.

Mr. Teal introduced the PowerPoint presentation: "Overview of the FY17 Budget" (copy on file). He turned to slide 2: "Unrestricted General Fund Revenue/ Budget History (\$ millions)." He indicated that the chart was a familiar one. He thought it was the best introduction to the budget because by providing a 40 year history of state spending and revenue it provided some perspective to the FY 17 budget. He explained that the chart showed revenue depicted in the green background and agency budgets in dark blue. Statewide items such as debt service, retirement assistance, and fund capitalization were shown in light blue. He continued that the capital budget was shown in yellow, the red bars above the line represented surplus, and the red bars below the line depicted deficits. One of the take-a-ways from the chart was that spending correlated with revenue. In other words, the budget was flat when the state did not have any money, and when it did have money it spent it. In recent years after 2005 the state had exceptional increases in revenue. There were also increases in expenditures. The increases and expenditures were not just capital. Typically, when there was extra funding it went towards capital projects. The first things that were reduced when money was tighter was the capital budget. The

operating budget increased rapidly as well. He reported that the state went from a budget of \$2.5 billion to \$7.8 billion by FY 13. It did not seem bad at the time because there were surpluses in every year despite the enormous increase in spending. Revenue began to decline in FY 13. The decline was not seen until FY 14. The response to a declining budget in FY 13 was a smaller capital budget.

Co-Chair Neuman asked about slide 2 and about agency operations. He wondered if the budget was adjusted for inflation. Mr. Teal replied that and adjustment for inflation could be seen in the next slide.

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Mr. Teal advanced to slide 3: "Total Agency Operating Budgets, Statewide Items and Capital Budget Compared to Revenue (UGF Only-\$billions)." He explained that it was not necessary to adjust for inflation when comparing FY 16 to FY 17 or FY 15 to FY 17. If the numbers were not adjusted for inflation the years would not be comparable and would distort the picture. However, in looking back 40 years it was critical to adjust for inflation. The chart reflected from FY 13 forward. In FY 14 revenue declined by \$1.5 billion. The FY 15 capital budget was reduced in response to lower revenue. Statewide items continued to grow. He noted that in FY 15 revenue crashed significantly. In reaction to the crash the state lowered the capital budget even further and cut the operating budget for the first time for FY 16. He reported that FY 17 would be another year of low projected revenue and the operating budget would be about \$100 million lower. The statewide budget would be higher as would be the capital budget by about \$75 million.

Representative Wilson asked about the previous three budgets and what price per barrel they were based on. She also asked about the actual price per barrel. Mr. Teal would provide the information at a later time. The budget was based on prices much higher than actuals.

Representative Wilson asked about the price per barrel that the governor used in his current budget. Mr. Teal responded, "\$56."

Co-Chair Neuman asked about the difference in the value of income to the state with oil prices between \$30 and \$50

oil. Mr. Teal had a slide later in the presentation that would provide the answer to his question.

Representative Edgmon mentioned that \$400 million was cut from the operating budget and \$400 million was cut from the capital budget. He asked about the reduction of state employees within the past 2 years. He was thinking of a presentation by Neal Fried made to a committee in Anchorage in early December [2015]. He reported 1400. He was unclear if Mr. Fried's number included vacancies or actual bodies. Mr. Teal responded that Ms. Pitney had given a presentation in the Senate Finance Committee earlier in the morning reporting that 600 people had been laid off since December. He clarified he was talking about people rather than vacant positions.

Representative Edgmon asked if it was the last year.

Co-Chair Neuman indicated Ms. Pitney would be making a presentation to the committee later in the week on Friday.

Representative Edgmon clarified that it was 600 people in the previous calendar year. Mr. Teal answered that it was from the December 2014 payroll run to the December 2015 payroll run. Although it did not really reflect fiscal years one to another but provided a good comparison of employment.

Representative Gattis reported that in the current day the price of oil was \$26/bbl. She also commented that the governor's budget in FY 17 looked larger than the budget passed in FY 16 - a budget the legislature really worked diligently to reduce. She remarked that \$5.5 billion was more than \$5.4 billion. Mr. Teal responded that she was correct.

Co-Chair Neuman remarked that Ms. Pitney was currently in the audience and would be prepared to answer the question on Friday.

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Representative Gara asked Mr. Teal to run through the top 4 items on page 2 for statewide operations in light blue. He also wondered if the items could be cut. Mr. Teal stated that it was possibly "cut-able." He concurred that statewide operations was primarily composed of debt service

and state assistance through retirement programs including PERS and TRS. Once debt was issued there would be debt service payments for the following 20 years. Debt services payments could be cut by a small amount by refinancing and getting a lower interest rate. However, the only significant way to reduce the debt service would be to pay it off with cash. Since the state did not have the cash the debt service was "uncut-able." The same applied for retirement costs. The state was paying for what happened in the past. State employees and retirees had not seen any of the money lost in the stock market, but the state had to put it back into the retirement system. Retirement assistance could be cut if the January stock markets were reduced. There was nothing the legislature could do to cut the debt service.

Representative Gara wondered, aside from debt services and retirement payments, if there were any other larger items that could possibly be cut. Mr. Teal responded affirmatively and would address it in an upcoming slide.

Co-Chair Neuman asked Mr. Teal to review the \$5.4 billion. He stated that it was comprised of \$2 billion formula, \$2 billion non-formula, \$1.2 billion statewide including \$650 million for Medicaid, \$228 million for debt service, and \$268 million for retirement. Mr. Teal spoke of the big crash in FY 15 and in the FY 16 budget process. The first concern LFD had was burning through reserves at a rapid rate. The prior year was the first year that the concern spread throughout the legislature and to the public. People were currently more aware of the fiscal problems Alaska faced than there used to be. The budget was up \$65 million and was reflected as \$100 million on the chart. The bottom line was that the state was running deficits of roughly \$3.5 billion per year. The deficits would drain the state's reserves by the end of 2020. The reserves were comprised of more than just the Constitutional Budget Reserve (CBR): it included the Earnings Reserve Account (ERA) as well. The state did not have time to look at the problem as much as legislators wanted to. He suggested legislators would need to take action.

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Representative Munoz noted that on the page containing the operations line from FY 05 to FY 17 there was considerable growth. She wondered how much of the growth was attributed

to K12 education and Medicaid. Mr. Teal relayed that they were large cost drivers. He had individual graphs on each of the agencies. He did not have the numbers dating back to FY 05 with him but they would all be seen in subcommittee. He agreed Representative Munoz was correct that the drivers were K12 education and Medicaid. The next was state employee costs including retirement expenditures.

Representative Munoz asked to be provided with the amount of growth in the two areas and how much it accounted for the growth in the budget starting in FY 05. She also remarked that in paying down the unfunded liability the state's annual payment went from \$500 million or \$600 million to \$250 million. She asked how it was reflected in the graph. Mr. Teal stated that it would be discussed later in the presentation when looking at the fiscal summary. He commented that the state assistance cost for PERS and TRS was over \$700 million per year. In the current year, without the payment, it would have exceeded \$1 billion. The legislature had a cash infusion of \$3 billion to the retirement fund along with some other reforms which cut the retirement assistance payments down to about \$250 million and in the current year to about \$215 million. He thought the new evaluation would reduce the number further.

Representative Munoz asked why it was not reflected in the turquoise [light blue] color on the graph. It appeared that the amount for the cost was not reflective of the change. Mr. Teal responded that she had a good observation. He explained that beginning in FY 17 under the governor's plan Permanent Fund Dividends (PFD) were paid from the General Fund (GF). Because they appeared as unrestricted general fund (UGF) expenditures, they were placed into the turquoise bar reflecting \$700 million. It explained the growth Representative Munoz pointed out. He would discuss it further when he reached the fiscal summary in the presentation.

Vice-Chair Saddler mentioned hearing from his constituents about running out of money within 2 years. He wondered what was different presently. Mr. Teal thought it was a matter of philosophy and how a person saw the need to fill the deficit. He posed the question as to whether the cause of the deficit had to do with expenditures rising or revenues falling. Clearly expenditures had risen rapidly. Also, clearly revenue had fallen rapidly. Some might say it was not worth arguing about. The point Vice-Chair Saddler

brought up was important because the person who saw the deficit a certain way would determine how they would respond to it. If a person saw it as temporary oil market craziness then they would be justified in doing nothing. The world would return to normal and all involved would just have to ride out the storm. However, after 3 years of \$3.5 billion deficits, reclassifying the temporary situation as a more permanent one might be in order. He did not think the situation could be considered temporary especially given the forecast for a continued \$2 billion revenue stream and a \$5 billion budget. He suggested if a person thought the problem was due to spending then cuts would likely be in order. He directed the committee's attention to the next slide.

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Mr. Teal scrolled to the chart on slide 4: "Real Per Capita Unrestricted General Fund Revenue/ Budget History (2014 dollars Per Person)." He explained that the graph adjusted for both inflation and population growth. He suggested that when adjusting for inflation and population growth there might be 4 or 5 agency operating budgets lower in the previous 40 years. However, on a real per capita basis the state was spending less than in any point in history. Capital was also small relative to past years. He relayed that statewide numbers were up but reminded members that the state was paying for the past. He surmised that even cutting to the \$4.8 billion mark, a cut of roughly \$700 million, filled only 20 percent of the deficit. Cutting spending would not fill the state's fiscal gap. If a person thought the state had a longer-term revenue problem, he would say facts were on that person's side. He conveyed that per capita inflation adjusted revenue was the lowest it had ever been. He queried about taxing citizens to replace lost oil revenues. It would take approximately \$5000 per capita. He emphasized that per capita was every man, woman, and child. On a per worker bases it would likely have to be tripled to cover the costs - an unlikely solution. He concluded that the traditional ways to close deficits, cut spending or increase taxes, were insufficient. The state could not cut its way out of a deficit or tax its way out of the deficit. Even a combination would bring massive economic shocks.

Co-Chair Neuman asked Mr. Teal to clarify how many years the state could sustain a \$3.5 billion with the available

pots of money for appropriations. He wanted the value of each of the different funds and the total value of all funds. Mr. Teal responded that when he talked about running out of reserves the CBR contained roughly \$7 billion. Those monies would be gone after FY 18. Next, the legislature would turn to the ERA which contained about the same amount of money. That money could be expended in 2 years. Once the ERA was exhausted people might advocate cutting the budget down to \$2 billion in cash flow revenue. By then, legislators would not be talking about using Permanent Fund reserves, they would be forced to use them. Essentially it would be unlikely that dividends could be paid at all or the fund inflation proofed. The entire fund balance would be about \$40 million. If the fund were to earn 6 percent on investment the state would have about \$2.5 billion to spend. However, the scenario would place the state in an extremely dangerous situation. This was due to not being able to account for \$2.5 billion in interest. There were some years the state could lose on its investments and not have any income other than the \$2 billion or so from traditional sources.

Co-Chair Neuman recited some estimated figures. He was trying to place an emphasis on the timeline.

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Representative Wilson referred to slide 3. She asked if the figures reflected the state's total actual spend for each year. Mr. Teal confirmed that the totals reflected actual dollars without any inflation adjustments.

Co-Chair Neuman asked if the totals included the deposits into the CBR. Mr. Teal responded, "No."

Representative Wilson queried how much was generated in Permanent Fund reserves. Mr. Teal clarified whether she was asking on an annual basis.

Representative Wilson responded affirmatively. Mr. Teal answered that the state earned 6 percent or \$3 billion. He explained that of the \$3 billion, the state was currently inflation proofing using \$1 billion. The state was also paying dividends. He added that of the \$31.4 billion. Of the three billion that might come in, the state was spending about \$2.4 leaving her with a surplus of \$600 million in earnings.

Representative Wilson agreed that the state could not maintain a \$3.5 billion deficit. She furthered that by lowering the budget to \$4.5 billion or \$4 billion the legislature would use less from the CBR in the following year. She wondered if such a course would get the state to where it needed to be fiscally. She did not believe it was possible for the state to maintain its level of spending at \$5.5 billion. She thought the budget needed to be at the \$4.5 billion level or lower. She asked for his expert opinion about a sustainable budget amount without adding the taxes being proposed.

Mr. Teal could not say what the state spending level should be. He commented that the people of Alaska thought the legislature was spending irresponsibly. He suggested that Rasmussen was getting feedback that the growth of state government had been very high and people assumed money was being wasted, as they saw nothing for it. He thought a budget of \$4.5 billion was too high if nothing else was done in tandem. The legislature would continue to burn through its reserves, just not as quickly, and the problem would remain unresolved. He opined that a \$2.5 billion deficit was absolutely unsustainable.

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Representative Wilson referred to slide 2. She wondered if the state should lower its spending level to the levels seen in FY 04 and FY 05. She had received several charts from different entities regarding population growth and it being minimal. She was unclear how to justify the current levels of spending. She wondered if it was more realistic to use the spending levels in FY 04 and FY 05 as numbers to strive for.

Mr. Teal responded that the Legislative Finance Division (LFD) had been providing the graphs to the finance subcommittees for the previous 4 years. He suggested that if the legislature needed to cut back it should begin looking at unwinding some of the previous increases to the budget. He continued that in taking inflation population growth into account the operating budget shrunk rather than grew. He was uncertain people knew the facts. In looking at the numbers, the budget was not growing rapidly like people thought. There was a \$7.8 billion budget in FY 13. The budget was currently at \$5.5 billion, a \$2.3 billion budget

cut in the previous 4 years (30 percent). He queried if the public was aware of the facts. One of the perspectives was that the legislature was only cutting the capital budget rather than imposing agency reductions. However, as far as the deficit was concerned whether \$1 dollar was spent on capital or on operations it did the same thing - it added \$1 dollar more to the deficit. The problem was total spending which had fallen by 30 percent. He did not believe the public understood the facts. He suggested the public thought additional cuts were necessary. However, it was very difficult to find cuts in agency budgets. Capital costs were cut to a little more than federal matching dollars. Statewide, if the state could not unwind the debt service and the retirements cost not much would be left to cut. He posed the question about where to find additional reductions. He relayed that a \$700 million cut would move the level of state spending down substantially lower than ever before which would result in reducing certain services. It was the legislature's responsibility to determine which agencies would spend less and what services would be cut. He concluded that the decisions the legislature had to make would likely take 90 days or more to determine.

Representative Wilson understood that it was the responsibility of the legislature to figure out a direction to take. However, she wanted to know a monetary level of sustainability. She relayed that the people in North Pole thought the state was overspending because they were paying property taxes and high energy costs. Adding more expenses for constituents would likely be devastating to some in her district. She requested a graph showing only the population growth. She thought it would be easier to show to her constituents. She believed the state's growth and operations had increased substantially compared to how many people the state was actually serving.

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Mr. Teal responded that the population had approximately doubled from just under 400 thousand people to just under 800 thousand currently. He would provide members with a graph that was just population adjusted. The total adjustment for population would be doubled. Inflation equaled about \$3 to \$3.50 which tripled things. He suggested that population was responsible for approximately 2/5 of the increase [Note: Mr. Teal pointed to a place on

the graph but it was unclear where on the graph based on the audio].

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Representative Gara believed that all legislators were hired to lead even if they could not get the message across to the public concerning the budget. He referred to page 4. He wondered, in looking at the budget adjust for inflation and population growth, if the state was somewhere below where it was in FY 08. Mr. Teal responded affirmatively. He explained that there were a few years including FY 03 and FY 99 in the past 40 years that the state budget had been as low as the current level of the budget.

Representative Gara wondered if the state was in worse shape than the year Mr. Teal was pointing to. He noted that legislators talked in terms of the \$3.5 billion budget deficit. The figure really depended on oil price projections. He wondered what oil price projection LFD was working from and whether the deficit could be larger than \$3.5 billion.

Co-Chair Neuman asked Mr. Teal to clarify whether he was working from DOR's estimate of oil pricing. Mr. Teal confirmed that LFD was using DOR figure of \$56/bbl. The price of oil had been less than \$30/bbl. The average price for oil currently was about \$40/bbl.

Mr. Teal skipped to the sensitivity chart on slide 7: "FY17 Unrestricted General Fund Revenue - Fiscal Sensitivity." He thought it addressed the question about whether the deficit was larger than \$3.5 million. He believed it was. He explained that if the price of oil was \$100/bbl then revenue would equal roughly \$4 billion. If oil reached \$110/bbl revenues would reach about \$5 billion. He noted that a \$10/bbl price change provided \$1 billion in revenue. He highlighted that at \$30/bbl revenue was about \$1 billion. At \$40/bbl revenue would reach about \$1.2 billion. He continued to explain that because production was low and because of the way the tax structure worked it did not matter whether oil prices were at \$30, \$40, or \$50 per barrel the gain in revenue was less significant. He indicated that at about \$80/bbl revenues increased more rapidly.

Representative Gara asked if the oil tax structure affected the curve. He wondered about the 4 percent minimum tax up to about \$70 or \$80 per barrel.

Mr. Teal responded that the state was at the floor currently. He was unclear whether the state would be at the floor for the entire year. It was not completely the floor but just that the tax rates went very low. At the current price it was difficult to generate revenue.

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Representative Guttenberg mentioned that the public saw the price of oil dropping. However, they were not seeing prices reflected at the gas pump. Legislators had to explain the circumstances to the public. He reported that some of his constituents relayed that they were just waiting for the price of oil to return to \$100/bbl. In the meantime, they relied on short-term fixes. Once the price of oil went up things would return to normal. However, in the graph on slide 4 or slide 2, he wondered what the bump would look like with the current tax regime. Mr. Teal replied that the state would balance the budget if oil went to an average of \$113/bbl in FY 17 given the governor's expenditures. He pointed out that at \$113/bbl revenues were about \$5 billion. It was a different way of saying the same thing. Higher oil prices increased revenue.

Representative Guttenberg asked if spikes would be much higher looking at FY 07 and FY 11 at comparable prices. The revenue sensitivity chart reflected only one year of balancing the budget as compared with those years the public thought money could be placed in the bank and stretched out. He suggested that it would not happen at the oil price of \$110/bbl. Mr. Teal stated that if the price reached \$110 there would not be any money to put in the bank. At \$113/bbl the state would break even. It would take oil priced higher than \$113/bbl before there would be any money to put in the bank. The amount of money the state could put in saving would depend on the price of oil. At \$120/bbl there would be roughly \$1 billion extra in revenue which could be placed in the bank. If the price of oil were to stay at \$120/bbl the state would not have a deficit, but rather a sustainable budget. As a result of having a large deficit the state needed to pull money from reserves. He emphasized that the faster the state pulled money from reserves, the faster the reserves would be depleted. The

state's problem was spending a limited reserve balance. In FY 16 one-third of the state's reserves would be exhausted. There were only about two years to correct the problem unless there was a significant drop in expenditures or a substantial increase in revenues. He opined that it was unreasonable to expect expenditures to fall to \$2 billion. Some people would argue that revenue would not increase to \$5.5 billion either. Finding a balance between revenue and expenditures to reach a sustainable budget was a difficult challenge.

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Representative Edgmon asked about economic shocks relative to making substantial cuts to the budget. He wondered who the legislature should turn to in order to understand the ramifications of cutting \$700 million or more from the budget. He suggested that if a person looked at Alaska's gross domestic product (GDP) in its totality it was about \$57 billion. There were economic consequences to cutting the state's budget because it was a large part of overall wealth in Alaska. He queried how to better understand what it would mean to Alaska's economy if the state were to cut an additional \$700 million from its budget. Mr. Teal responded with a question about who remembered the 80s.

Co-Chair Neuman referred to page 11 indicating that it helped him to see what \$700 million looked like.

Mr. Teal thought that Representative Edgmon was asking what a substantial cut would mean to the economy. He explained that from the treasury's perspective the problem was solvable because it would not be considering services. In looking at the problem from an economic perspective other things would need consideration such as jobs and housing prices. He mentioned that the Institute of Social and Economic Research (ISER) and the McDowell group had done some work with economic input/output models. If the legislature cut the operating budget it had a much larger impact than cutting capital. In looking at the capital budget it had a much lower multiplier in economic terms than the operating budget did because the operating budget created an immediate job and immediate money in people's pockets. The capital expenditures immediately left the state and did not get re-spent. In the 80s when the legislature cut the capital budget severely, construction

workers left, people walked away from their houses, and the markets became flooded. Things became more complicated.

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Representative Gattis noted that in the 80s there were some differences including bank failures, and other things going on at the time. She agreed that there was an economy problem but did not agree that a bank failure was part of the current challenge. Mr. Teal responded that Representative Gattis had a valid point. He suggested that with internet mortgages and other changes in the banking industry. Banks tended to sell their mortgages and held their mortgages much more than they did presently.

Representative Edgmon agreed that the budget had to be reduced. However, he was concerned that if the budget was cut in one place, the responsibility would be moved to another agency. He suggested that cutting small schools would lead to students moving to Anchorage and Fairbanks and would result in a redistribution of costs. He wanted to have a better sense of the impacts on the economy as a whole as well as the downstream effects on a cost basis elsewhere in the budget. He referred to Article 7 of Alaska's Constitution. If the legislature was to make several hundred million dollars in cuts, it would likely violate its own health education welfare clause of the state constitution. He appreciated the latitude to have a wider range of discussion. He felt it was important to be aware of the savings when the legislature made reductions. He supposed that there would not always be a savings.

Co-Chair Neuman interrupted that ISER would be presenting to the committee. They were economists that would delve specifically into the effects of the budget and the economy. He spoke to the issue of job losses. He reported that for every \$100 million cut from the capital budget 900 jobs were lost and, for every \$100 million cut from the operating budget 850 jobs were lost. In the previous year the legislature reduced about \$1 billion which equated to about 8000 to 10,000 jobs lost. He continued that people turned to drugs and alcohol during difficult times which would create different strains on the state budget. The state would see increased demands within the Department of Public Safety (DPS), the Department of Law, the Department of Health and Social Services (DHSS), the Department of Corrections (DOC), and the Alaska Court System. Currently,

the state was experiencing hard economic times and the legislature would have to make some difficult decisions. He would try to get Gunnar Knapp before the committee.

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Mr. Teal discussed slide 5: "AGENCY OPERATIONS 2014 Inflation Adjusted \$ (GF Only)." He stated that the spreadsheet, adjusted for inflation, was a way of showing that the operating budget was not as excessive as the public might think. He explained that the past budget closest to the FY 17 budget was highlighted for each department. He commented that a few of the highlights were more recent than FY 12 but most of the highlights fell within the years of FY 07, FY 08, and FY 09. The overall average for the operating budget was at the FY 10 level of funding. On a per capita basis the highlighted area was in FY 08. He expressed his concern about whether the public was aware of the state's fiscal situation and mentioned a recent lunch-and-learn sponsored by the Rasmussen Foundation.

Co-Chair Neuman noted that members had a larger copy of the fiscal summary in their packets.

Mr. Teal reported that the Rasmussen lunch-and-learn posed the question about whether the public was aware that 30 percent was cut from the budget in the last 4 years. He furthered that on a per capita adjusted basis the state budget was as low as it had ever been. The Rasmussen Foundation was aware of a problem but the public still thought the budget was growing at 7 percent per year or more. The other question posed was whether the public felt the pain of the reductions. He surmised that the public could not tell. In the past many of the cuts were related to the capital budget for projects that were funded but had not yet began. The backlog of capital projects made it such that no one was aware of the cuts to the budget.

Co-Chair Neuman reported monies that still remained in place. He noted he would be talking more about horizontal and vertical types of construction. Horizontal projects included roads and highways. Buildings were examples of vertical projects. He suggested that vertical projects would not be covered and the related trade groups would feel the economic impacts first.

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Representative Wilson completely disagreed with Mr. Teal. She pointed out that regulation played a large role. She suggested looking at the budget from the standpoint of how the money was being utilized. She elaborated that a small section of the state's population used up a larger portion of resources compared to the majority of the population. She referred to social services and education. She spoke to looking at regulations and their associated costs. She opined that the public made a connection between being regulated and state government being too big. She speculated that without decreasing regulation it would be difficult to understand the budget. She wondered if there was a way to better understand how much of the population in Alaska was using the majority of its resources. She provided a personal example. The taxes she paid on her house were used primarily to provide her with a place to take her trash. She no longer had children in school and did not live within a road service area. In her view, she was paying too much for taxes because of what she personally used. She wondered if she was accurate in her assessment that only a small portion of the population was using the majority of the resources.

Mr. Teal answered that former Senator Rick Halford had published an article on Representative Wilson's point. He explained Senator Halford's position was that a particular person might not use certain services but used the roads and other resources and previously attended school. That person was paying for the next generation rather than themselves. The article covered the notion of how to view services used versus taxes paid. He agreed that there was a large disconnect between what people believed they were getting and what they believed they were paying for. He also thought what people missed were things like the cost of Medicaid expansion. He reported that the average cost per recipient of Medicaid was less than \$6000. His first thought was that it would be cheaper for every state employee to go on Medicaid because presently they paid \$14,000 for insurance premiums. He answered that the elderly and infants burned most of the money. Some would argue that the purpose of government was to redistribute income and to provide services to those that needed it. He furthered that the right side of government depended on the individual. Mr. Teal could not tell Representative Wilson what the right size of government was.

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Co-Chair Neuman asked for clarification about Representative Wilson's question. Representative Wilson reasoned that unless the legislature could understand who utilized most of the services it would be difficult to identify the breaking point for constituents if the state were to add all of the extra that had to be paid. She mentioned the discrepancies throughout the state having to do with affordable energy. She thought that making reductions in certain areas might have more of an impact in a particular district. Whereas, additional taxation might have a more devastating effect in a different district. She wondered how to balance the issues she mentioned.

Co-Chair Neuman invited Representative Wilson to formulate her question and provide it to his office. He would take it to the Institute of Social and Economic Research (ISER). Representative Wilson responded that perhaps the legislature should use the constitution as a guideline, funding only those things the constitution required.

Mr. Teal indicated he would begin his overview of FY 17.

Co-Chair Neuman agreed that the overview of FY 17 was very critical to Mr. Teal's presentation. He noted that the largest differences could be seen in the columns associated with revenue.

Mr. Teal spoke to the fiscal summary that had 10 lines for revenue. He would not be talking about the governor's fiscal plan in the current meeting. In FY 16 revenue came from the traditional sources. The new revenue lines were related to the governor's fiscal plan which he would not be looking at to evaluate the FY 17 budget. Typically LFD looked at the budget as being the expenditure plan. However, in FY 17 the budget was not just an expenditure plan. The budget, submitted by the governor, included the appropriation bills (expenditures), the revenue bills, and his fiscal plan. The governor's budget was comprised of all three elements. He could not leave taxes out of his budget because they were a part of it. Mr. Teal clarified that they were looking at the governor's budget, not the legislature's budget, or a budget reflecting what LFD thought should happen to the budget.

Co-Chair Neuman commented that the budget was based on all of the governor's proposed legislation being enacted in their current form. Mr. Teal concurred with Co-Chair Neuman. He continued that the governor's budget included revenue measures, Permanent Fund re-plumbing, and all of the things that would be discussed in the following week. He noted that revenue was up from \$1.6 billion to \$1.8 billion but was based on oil priced at \$57 /bbl. If the market price was less, revenue would be less. He again referenced the sensitivity chart and reminded members that revenue was not that sensitive to price. He furthered that if \$30 /bbl was used rather than \$57 /bbl the state would be approximately \$200 million short in revenue.

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Representative Gara asked if he could present a question from another legislator.

Co-Chair Neuman asked that the other legislator to pass the question through his staff to him and he would ask the question. He remarked that it was the Finance Committee's meeting. He would try to do what he could.

Mr. Teal turned to the fiscal summary looking at expenditures. He pointed to the non-formula agency operations (representing the typical day-to-day operations) on line 14. The change in UGF reflected a decrease of \$60 million. The \$60 million included the \$30 million unallocated fund reduction the legislature took in the prior year. The legislative intent was that the agencies received the funding in FY 16 but would not receive them in FY 17. The money was taken out, put back in, and then taken as an unallocated reduction at the agency level. The next question was would the finance committee allocate the unallocated cuts in the governor's amendment process. In theory the legislature would want to apply the cuts rather than leaving them unallocated for the agencies to determine.

Mr. Teal referred to line 15 representing K-12 Foundation formula monies. The monies were down \$4.5 million. FY 17 was the last year of the \$50 increase in the base student allocation (BSA). He reported that the \$50 increase in the BSA equated to \$12 million in expenditures. The amount was down \$5 million because the governor added \$17 million of

earnings from the Public School Trust and replaced \$17 million of general funds (GF) with the trust money.

Co-Chair Neuman clarified, "One-time."

Mr. Teal responded that all of the earnings that had been built up over the years were gone. The governor apparently had a bill changing the way the school trust paid out. At the present time the trust had a balance of \$600 million without purpose. He thought most people believed that the school trust was supposed to be spent on K-12 education. However, for every dollar that came from the school trust, the general fund was reduced by \$1. The trust never supplemented and had no purpose. He suggested eliminating the trust for all the good it did education. He recapped that there was a \$12 million increase due to the increase in the BSA offset by \$17 million resulting in being down about \$5 million. Medicaid, found on line 16, showed a \$32 million reduction. Most, if not all of the Medicaid expansion savings were taken in FY 16. He understood that the \$32 million came from reforms that were not yet identified. In other words, the governor was hoping to save \$32 million on Medicaid.

Mr. Teal reviewed the statewide obligations beginning on line 23 reflecting the state's debt service. In FY 16 debt service was \$206 million in GF and jumped to \$436 million reflecting a \$230 million increase in FY 17.

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Co-Chair Neuman asked how many years the state had before it could no longer pay the Permanent Fund Dividend (PFD) assuming that the CBR and the earnings reserve accounts (ERA) would be used to pay for a yearly budget deficit of \$3.5 billion. Mr. Teal responded roughly 4 years.

Representative Edgmon suggested there was a statute in place that stated only half of the earnings reserve could be used to pay for dividends.

Mr. Teal explained the formula which determined the dividend. The formula took the earnings for the previous 5 years multiplied by 21 percent and divided by half. In a year where the PF lost money it was possible that the state could be in a situation where it was paying dividends but the earnings reserve account was empty. There was a time,

in 2009, when the state came close to not being able to pay dividends. The dividend equated to half of the previous 5 years' earnings - which might not be there because those 5 years of earnings were paid out as inflation proofing and dividends already.

Representative Gara wanted to put into perspective how much money had been spent on the education budget. He relayed that two years prior, when HB 278 [Legislation passed in 2014 - Short Title: Education] passed, it passed with an additional \$43 million that was distributed as if it went through the BSA. The \$43 million was gone, but since then the state had added \$12.5 million to the BSA for two years. He concluded that the state had funded \$18 million less than two years prior under the governor's proposal. He wondered if he was accurate. He did not account for differences in student numbers. Mr. Teal could not reply to his question in a simple way because it depended on student counts and many other factors. It was not merely the total amount that went to the K-12 formula. It had to do with how much of it was GF. The school trust kicked in. It showed the state spent less for education for the year, however, the state did not. The numbers appeared the state spent less. The bottom line was that the state probably spent less per student in the current year than couple of years previously. He did not have the numbers with him and admitted they were difficult to put together.

Co-Chair Neuman added that the amount of money the state spent on education up to the previous year had continued to increase. Mr. Teal responded affirmatively if a person considered what the state was spending and not just the UGF portion. He suggested including the school trust fund and adjusting for the student count.

Mr. Teal remarked that the debt jumping up by \$230 million might seem like a huge increase. He explained that most of the amount was comprised of pension obligation bonds. There was about \$12 million in general obligation bonds and another \$4 million in school debt reimbursements. He highlighted line 28 which showed retirement costs of \$262.5 million in state assistance dropping to \$50 million. There was a \$121.3 million reduction in the retirement costs. The items went together because in the governor's plan he intended to issue pension obligation bonds, depositing the proceeds in the trust fund. As a result the contribution

rate would fall as would the state assistance. The state assistance would be replaced with debt service.

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Mr. Teal scrolled to the table on slide 10: "PERS and TRS Costs (\$ million)." He explained that in FY 17 the state was currently projected to pay \$99 million if the state did not issue pension obligation bonds, retirement assistance to the state and to the municipalities. If the state were to issue pension obligation bonds the rate would fall to 22 percent and it would no longer have to pay state assistance. The state would have to pay \$7.2 million to issue the debt, of which the debt service payments would be about \$129 million. The state would pay \$37 million more if the state issued bonds than if it did not. In the Teachers' Retirement System (TRS) a similar thing would happen - state assistance would drop but not vanish. The state would continue to pay \$50 million. There would also be issuing costs and the debt service equal to another \$22 million. In short, issuing pension obligations would cost the state about \$60 million in FY 17. The reasons for considering pension obligation bonds were to take advantage of the spread, borrow money at 5.5 percent, make 8 percent, and over the life of the bonds come out ahead. His office had run a bunch of scenarios and the state came out ahead after 20 years. If the bonds were sold in the previous December when the stock market fell 10 percent it did not pencil out. It was a question of risk assumptions. He conveyed that pension obligation bonds were built into the governor's budget presently. He pointed out that the group of numbers were one possibility for debt service payments. There were hundreds of ways to structure debt. There were several other approaches that would have the same effect without issuing pension obligation bonds.

Co-Chair Neuman remarked that the House Finance Committee would be having an in-depth discussion on the topic in future meetings regarding the governor's bill.

Representative Pruitt referred to the fiscal summary on slide 6. He highlighted under the column labeled "Other State Funds" the figure of \$2.5 billion for FY 16. He wondered if it was the governor's intent to sell the obligation bonds in the current year. He wanted to understand where the money received on the bonds would be placed. He wondered if the money would go to the Permanent

Fund, into a savings account, or used over the next few years. Mr. Teal explained that the administration would expect to sell the bonds in FY 16 which was the reason the cost of issuance could be found in the supplemental budget. The proceeds would be deposited into the Public Employees' Retirement System (PERS) and TRS trust funds, which could only be used to pay benefits. The money would be gone and the state could not retrieve it. The next question would be who would pay the debt service. The hope was that the retirement system would pay it. However, the debt service would be paid with the state's UGF.

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Representative Pruitt commented that the state had been burned by investments in the stock market with its pensions in the past. He asked about the risk. The state would have been in a difficult situation had it sold the bonds in the previous December. He queried about the long-term risk to the people receiving the pensions from the state system. He also asked if the risk would be shifted. Mr. Teal replied that if the state issued pension obligation bonds the GF would pay a fixed debt service schedule. If the state did not make an 8 percent return it would be faced with returning to state assistance in addition to the debt service. In terms of risk, he posed the question as to whether Representative Pruitt was the type of person that would mortgage his house, borrowing it at 4 percent and placing it into the stock market. If so, then pension obligation bonds might be attractive investments. Otherwise, they might not be so appealing.

Representative Munoz wanted to respond to a statement Representative Pruitt made about being burned by investments. She thought the return on the investments had been favorable and that the Alaska Retirement Management (ARM) Board had been very successful in investments. However, the decision about underfunding the obligation lead to the unfunded liability as well as the high costs of the Tier I Retirement Plan and early retirement. She understood there were 3 or 4 things that happened that resulted in the large unfunded liability but, the nature of the investments and the return on the investments were not part of the issue. She furthered that the actuarial recommended deposits into the trust funds were lower than what the state should have invested which led to an underfunding of the state's obligation.

Co-Chair Neuman informed the committee that there would be a more detailed discussion on the topic at a later time. If members needed more information they could contact Co-Chair Thompson, as his office was working on related legislation.

Co-Chair Neuman referred back to slide 3. He remarked that in the previous year the legislature had made reductions to the operating budget of more than \$400 million. The reductions translated to a 9 percent reduction in agency operations, the largest operations decrement over a period of one year in the state's history. Last fall the state spent an additional \$150 million for the gasline. He thought the additional appropriation made the operating budget cut for FY 16 look smaller. He asked if he was correct. Mr. Teal confirmed the chairman was correct. He offered that there were one-time appropriations such as the gasline which took \$157 million from the budget last year. He did not know if the amount would be sufficient. It was possible that money would have to be added in 2017. He expounded that the governor's figures were \$157 million lower due to one-time expenditures in 2016. If there were supplemental budgets in 2017, then the numbers would change because of spending additional monies in FY 17.

Co-Chair Neuman commented that the \$157 million appropriation was an anomaly. He wanted to make sure it was highlighted.

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Representative Wilson asked about how much the legislature had cut prior to appropriating money for the gasline and other things that had been added. Co-Chair Neuman thought it was about \$5.2 billion. Mr. Teal answered that the gas line was the large expenditure.

Representative Wilson thought the legislature was closer to a budget of \$5.0 billion rather than \$5.4 billion when the legislature concluded last year. If her number was accurate then the budget the legislature would be looking at would be \$500 million higher for the FY 17 budget. Mr. Teal replied that the number could be greater than \$500 million depending on whether there was a supplemental budget in FY 17. He was almost certain there would be additional costs. He reported that the state was about \$30 million to \$35 million short for fire suppression in FY 16 and in FY 17.

Representative Wilson was looking at the "normal" budget for FY 16. However, LFD did not identify budgets as "normal" but, rather, added the numbers to determine the current numbers. He furthered that LFD identified what amounts were appropriated and placed on a chart. He could only use the numbers available.

Representative Wilson mentioned that she had heard several comments from constituents about agencies making large expenditures at the end of each fiscal year. She asked if it could be tracked. Mr. Teal explained that the information could be tracked in the accounting system. However, he thought many managers did the same thing he did which was to make sure staff was paid and avoided running short on payroll. He provided a hypothetical example of spending money to purchase new computers in July at the beginning of the fiscal year but later finding out payroll was short in the following June. As a manager he would wait to ensure that payroll and other costs for the year would be met. If money was left over then it would be spent. In other words, it was not a matter of having a spending spree at the end of the year, it was about making sure money was available for spending. He understood the myth brought up by Representative Wilson. It was a common misconception of the public.

Co-Chair Neuman suggested asking the commissioners when looking at their agency budget. Representative Wilson replied, "I have, they denied. But I have asked." Mr. Teal responded, "Probably for the same reasons." Representative Wilson responded that she did not think she would ever know.

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Mr. Teal turned to slide 8: "Agency Operating Budgets Percentage Change from FY16 Mgt Plan to FY17 Gov (UGF Only)." He made the minor point that the slide showed in FY 17 that virtually every agency was taking a reduction. There was a small increase in Department of Revenue (DOR) and the Department of Natural Resources (DNR) related to the AKLNG Project. There was also an increase in the Department of Military and Veterans Affairs (DMVA) having to do with the expansion of the rural presence of the Alaska Scouts.

Mr. Teal advanced to slide 9: "Agency Operating Budgets Change from FY16 Mgt Plan to FY17 Gov (UGF Only)." He relayed that the slide showed the same information as in slide 8 but in percentages.

Mr. Teal returned to the fiscal summary on slide 6. He pointed to line 24 representing fund capitalization. Oil and Production tax Credits appeared as a sub appropriation under fund capitalization. There was \$500 million in the previous year and \$73 million in the current year. He reminded members the state had started out FY 16 with \$700 million in expected tax credit expenditures. The governor vetoed \$200 million. In FY 17 credits were projected to claim about \$625 million. If the \$200 million in credits that were not paid in the previous year were added to the credits anticipated in the current year, the state would have \$825 million of outstanding credits. However, the governor's budget only paid for \$73 million of them. He returned to Representative Wilson's point about whether the budget was really equal to \$5.4 billion, especially if the state ended up paying the remaining \$700 million in oil and gas tax credits that did not appear in the fiscal summary. He concluded that the budget would be greater if the legislature did not do something related to a bill the governor submitted that changed the tax credits and took \$1.2 billion from the CBR to pay some of them. In the legislation the funds would come from the CBR rather than from UGF. However, in his opinion, the tax credits were state expenses and were understated in terms of the amount of state money being spent. There were a lot buried in the budget that were not visible on the surface.

Mr. Teal discussed line 26, the Permanent Fund Dividend Fund. In FY 16 the amount was zero and in FY 17 the amount equaled \$700 million. He explained that the numbers were due to a re-plumbing. He detailed that in FY 16 \$1.4 billion in PFDs went out the door. The state classified them as coming from the ERA, part of the PF and did not show up as GF expenditures. Under the governor's plan 50 percent of royalties would go to dividends. He added that royalties were UGF. The Legislative Finance Division looked at it as if dividends would now be paid from the GF. He believed the payouts would continue to be referred to as PFDs. He suggested that no one would begin calling them royalty dividends even though that was what they would be. He added that he looked at the dividend checks as checks from the government whether from the permanent fund

earnings or the GF. He thought the governor's re-plumbing made it very clear that PFDs competed with K-12, and other GF expenditures. He thought it might change legislators' views of dividends as well as the public view of dividends. Also, the \$700 million would show as revenue because it came into the GF. He would discuss the re-plumbing in the following week.

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Representative Edgmon asked if it was cheaper to spend money from the CBR because the account was invested in long term investment vehicles rather than using money from the ERA that had a target return of 7 percent. Mr. Teal stated that the CBR was no longer invested in long-term investments because DOR had instructions that if there could be a call on the funds (a likely possibility), then they could not be invested long-term. The state was not earning as much on the CBR as it could be because the cash had to be readily available.

Representative Edgmon stated that in order to go into the ERA the legislature would be extricating or liquidating investment vehicles but it was not with the CBR. He thought it was important to look at the opportunity costs associated with reaching into the PF versus taking money out of the CBR. Mr. Teal responded that the fiscal summary reflected the governor's plan. The governor's plan would take the CBR away and place the money in the ERA. It would sort of address Representative Edgmon's issue with the difference in earnings because there would not be a CBR under the governor's plan. He clarified that the CBR currently received settlements between \$120 million and \$150 million per year from disputes with oil companies over taxes. There would be a continued flow into the CBR, the balance never going to zero. However, the governor's plan was to take the existing balance and place it into the ERA.

Representative Edgmon had additional questions but would save them for another time.

Mr. Teal continued that the questions about the governor's plan should probably wait until the following week due to time constraints.

Mr. Teal reported that the capital budget was up from \$118 million to \$195 million, an increase of \$75 million. The

total authorization increased to \$5.4 million, with a net increase of about \$65 million noted on line 41 of the fiscal summary. He mentioned that there was a complication. He pointed to line 42 in the first column that showed an FY 16 deficit of roughly \$3.8 billion. The revenue covered a little less than 30 percent of the expenditures in that year. Line 44 was included in anticipation of members asking about what it would do if it did not execute the governor's plan doing business as usual. The Legislative Finance Division tried to adjust as best as possible. The dividend would be about \$3.5 billion as shown on line 44. State revenue would then cover about one-third of its expenditures. He pointed to line 42 and highlighted that under the governor's plan the deficit would fall to \$440 million. With its plan, the administration was aiming to eliminate the deficit. It would not happen in FY 17, but within a couple of years. He suggested that if the numbers in the model were correct, the plan seemed reasonable. He knew dividends would fall by \$200 million in the following year if they were based on 50 percent of royalties and the state did not prop the payment to \$1000. The payment would be about \$700 per person and cost about \$500 million. LFD also knew that there were a number of things that were not covered. The income tax, for instance, in FY 17 would be in effect for half a year which would generate an additional \$100 million in revenue. The deficit would hopefully decline and eventually vanish if all went well. He stated that legislators might ask why it might be the wrong direction to turn.

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Mr. Teal discussed slide 11: "FY17 Governor's Request Agency Operating Budget, Statewide Items and Capital Budget (Formula & Non-Formula) (UGF Only--\$ millions)." He indicated that the diagram showed the FY 17 request in declining order of expenditures. There were many ways to look at the chart. First, the state had \$1.8 billion in revenue with oil priced at \$56/bbl. It was coincidentally about the same \$1.8 billion for all of the agencies except for the Department of Education and Early Development (K-12 education), statewide appropriations, and the Department of Health and Social Services. It could also be argued that the state would spend \$1.3 billion on statewide expenditures including retirement, assistance, debt service, and in FY 17 PFDs and \$200 million for the capital budget totaling \$1.5 billion. If revenue was \$1.8 billion

and \$1.5 billion was accounted for, only \$300 million would be left to spend on education, Medicaid, and every other agency. There were a number of other ways to look at the budget but, the bottom line was that the state did not have enough money to do what it wanted to do. He observed that the cuts were difficult to identify. It was one thing to suggest reducing the budget by a certain percentage. However, it was harder to be specific. He listed a number of things that would be a challenge to cut. He thought the chart was interesting because it demonstrated how difficult it was to begin balancing the budget by reducing it. He referred back to the Rasmussen Lunch-and-Learn when it was stated that people wanted reductions but they also liked their services.

Mr. Teal discussed things for the legislature to consider. The price of oil had been discussed earlier and how it might affect things. He speculated that \$200 million could be considered a large or a small amount. It was a margin of error in forecasting. The price of oil in the future was unknown. There were some budget shortfalls including one for fire suppression. He drew attention to line 32 of the fiscal summary which showed a supplemental for Community Revenue Sharing in the amount of \$34 million. It would bring the revenue sharing fund up to \$150 million. The governor wanted to distribute \$50 million to communities in FY 17. The governor's plan also indicated he would like to reach a \$60 million distribution level. If a distribution were to happen in FY 18 another \$80 million would need to be deposited in FY 17. If an \$80 million was not deposited then Community Revenue Sharing would fall to \$33 million in FY 18. If the governor intended to increase the distribution to \$60 million then \$80 million should be placed in the FY 17 budget - it was not reflected in the governor's plan. He also was unclear if additional money would be needed for the Alaska Liquefied Natural Gas (AKLNG) Project. If the expenditures he mentioned were considered, the governor's deficit would jump to a little over \$600 million from the \$400 million that it was currently. It would be a big deficit but it was much smaller than the \$3.9 billion deficit the state would be faced with if the legislature chose to do business as usual.

Mr. Teal concluded that LFD was currently stuck. It had the governor's budget as submitted on December 15, 2016. The revenue bills were released as LFD was putting the overview

together. He elaborated that the Permanent Fund Protection Act had been redrafted and until the previous day LFD had not received a copy of the revised legislation. He was unclear whether LFD was portraying the governor's budget accurately. He thought the division was doing the best it could with the information it had. He was unsure what the legislature would do. If the legislature chose to continue to do business as usual, only about one-third of expenditures would be covered with revenues and reserves would rapidly deplete to zero within 3 years. The legislature could make additional cuts to bring the ratio up a little bit. However, it would not extend the state's reserves by more than a year. The legislature could also adopt the governor's plan or a variation of it. He clarified that when he used the term "governor's plan" he meant any of the plans floating around including the GCI plan, a Rasmussen Plan, the DOR model, and the ISER model. They were conceptually all the same. They all looked at expenditures, revenue, and the PF earnings. There were some tweaks with inflation proofing the PF, the percentage of royalties, and other items. However, he felt they were all conceptually the same because they all had to rely on PF earnings to fill the deficit. The governor's plan took the state's current fiscal circumstance and bumped the revenue curve up. There were other plans that could do the same thing but, the governor's plan covered about 90 percent of expenditures. In other words, it used less than 4 percent of the state's reserve balance. Under the governor's plan the state's reserves could last 25 years or more making the state essentially sustainable at about the current level. He added that at least there was some hope for a sustainable future for Alaska because the deficits would be small enough that a little more tax or a little lower expenses would result in a balanced budget. He closed by offering that he and his staff were available to assist legislators in any way possible. He understood that legislators had a significant amount of work ahead of them.

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Co-Chair Neuman thanked Mr. Teal and his staff for the work they do. He was aware of the time his people spent working.

Representative Gara made a humorous remark about Representative Guttenberg's tie. He was aware the governor had tried to craft his plan in a way that would not require a constitutional amendment. He commented that the bill was

written with money remaining in the new oil credit fund at the end of the year and money remaining in the sovereign wealth fund at the end of the year after appropriations. He wondered if the money would be swept into the CBR and require a three-quarter vote every year to return the money back into the sovereign wealth fund and oil tax credit fund. He asked if it was an unintended consequence. Mr. Teal responded that under the governor's plan (an attorney general opinion) the ERA would not be swept into the CBR and there would be no more CBR in the future. He disagreed strongly with the idea. He believed that the ERA was unsweep-able because it was part of the PF. The earnings went into the GF defined by the constitution. It was only statute that required the sweep. He thought the plan was not workable as written because it lacked a sweep and a super majority vote. It would be something that would likely be examined in depth in the following week. In order to review the plan in detail he would need additional tools to review the complicated process. If the legislature's main concern was the CBR vote, the solution would simply be to repeal the statute that stated the ERA was not part of the PF. The legislature would be able to easily follow the constitution and indicate that the earnings were part of the GF.

Co-Chair Neuman commented that the meeting needed to wrap up. There had been several conversations on the issue. He reviewed the agenda for the following day.

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ADJOURNMENT

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The meeting was adjourned at 3:32 p.m.