

SENATE FINANCE COMMITTEE  
February 3, 2016  
9:05 a.m.

[9:05:01 AM](#)

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair  
Senator Pete Kelly, Co-Chair  
Senator Peter Micciche, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy  
Senator Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Pat Pitney, Director, Office of Management and Budget, Office of the Governor; Randall Hoffbeck, Commissioner, Department of Revenue.

SUMMARY

PRESENTATION: NEW SUSTAINABLE ALASKA PLAN

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PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, continued to discuss the PowerPoint from the previous day, "New Sustainable Alaska Plan: Pulling Together to Build Our Future" (copy on file). She noted that she would introduce and discuss one slide and then discuss a packet of materials entitled "FY 2017 10-Year Plan."

Ms. Pitney displayed slide 13, "Multi-Year Budget Components":

By FY19:

- Unrestricted general fund spending -target \$4.7B
- Continued operating reductions
- Limit oil and gas tax credits to \$100M
- Strategically utilize debt
  - o general obligation bonds -\$250M annual capital budget
  - o finance existing pension payments
  - o finance gas line construction (FEED -interest payments)
- Utilize DGF and federal funds to preserve services
- Maintain SBR/CBR balance -use earnings as regular revenue source

Constrained spending FY20-FY25 -FY26 gasline revenue

Ms. Pitney noted that the New Sustainable Alaska Plan (NSAP) would be a multi-year process and would take three years (FY 17, FY 18, FY 19) before the budget was balanced. She specified that the unrestricted general fund (UGF) spending target took into account downward cost reductions as well as investments (such as the AKLNG project). She thought the proposed annual capital budget was quite constrained, considering the transportation and sewer matching funds, as well as deferred maintenance.

Ms. Pitney continued to discuss slide 13. She related that a major motivation in bringing in new revenue sources was to maintain the state's savings balance, whether in the State Budget Reserve (SBR) or the Constitutional Budget Reserve (CBR). She noted that the savings balance gave the state a steady revenue stream of between \$100 million and \$150 million annually. She thought the majority of the plan focused on 2017 through 2019.

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Vice-Chair Micciche discussed variables inherent in the planning process and wondered if the administration had alternate plans in case variables such as an income tax or oil tax credits were different than anticipated.

Ms. Pitney relayed that the administration had various models that depicted what the savings difference would be

if variables such as taxes were changed. She did not have figures available to reflect alternate scenarios, but reiterated that the administration had looked at the impact of various outcomes. She agreed to discuss ramifications of changing different components of the plan as she continued her presentation to the committee.

Vice-Chair Micciche discussed the probability of success for the various components of the plan, and thought some pieces had a better chance than others. He asked if the administration had considered an outcome based on the contingency that certain items would not pass the legislature.

RANDALL HOFFBECK, COMMISSIONER, DEPARTMENT OF REVENUE, stated that the model included base assumptions of oil price recovery that were reflected in the proposed annual draw of \$3.3 billion. He discussed hypothetical shortages through reductions or new revenues, and stated that the administration was putting together a matrix for the House Finance Committee to illustrate the impact of shortages. He offered to share the matrix with the committee and thought it would illustrate a different scenario.

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Senator Hoffman introduced seventh and eighth grade students from his legislative district that were in Juneau participating in the Alaska Close-Up Program. The students were from New Stuyahok, Koliganek, and Twin hills (the sockeye salmon capital of the world located in Bristol Bay). The committee welcomed the students with applause.

Co-Chair MacKinnon asked Senator Dunleavy to give the students a high-level overview regarding the topic of discussion before the committee.

Senator Dunleavy discussed the function of the Senate Finance Committee, and outlined the topic of the presentation. He informed the students they would be hearing about taxes and new sources of revenue. He highlighted the services that were paid for with state funds.

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Senator Dunleavy asked how the administration had arrived at the estimation of how much government should be reduced, and asked about the nature of the discussions.

Ms. Pitney stated that planning was done on a program basis with each of the state agencies. The plan had built in continuation of efficiencies, as well as two reform efforts known to be taking place. She discussed the balance of reductions in combination with offsetting increases (such as the gasline and the rural engagement program). She specified that the administration had asked agencies to look within various programs to determine what items could be privatized in order to preserve the service while reducing expenditures. She furthered that there were reports, requests for interest, and feasibility studies being done.

Senator Dunleavy asked about Ms. Pitney's reference to the rural engagement program. Ms. Pitney explained that the program was within the Department of Military and Veterans Affairs, and would begin to strengthen National Guard presence in rural Alaska. The program was one of three proposed increases including gasline development [for the AKLNG project] within the Department of Revenue (DOR) and Department of Law in the amount of approximately \$38 million.

Senator Dunleavy asked if the administration thought the proposed increases were a necessity for government. Ms. Pitney clarified that the gasline increase was \$38 million, and the rural engagement program request was \$1 million. She considered that having a ready and trained volunteer workforce for emergencies would be a cost savings in the future. She discussed a third priority of strengthening the state's in-house finance capacity. She noted that the state currently spent a great deal of money to have Wall Street manage its assets, much of which could be managed in-house at a lower cost.

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Co-Chair MacKinnon noted that she chaired the budget subcommittee for DOR and pointed out that there had been trouble filling the positions of professional money managers. She wondered why funds were being requested to expand personnel when there were still vacancies from the previous year that had been unable to be filled.

Commissioner Hoffbeck acknowledged the difficulty in filling the positions, and expanded that the state would get a 3 to 1 or better revenue increase for dollars spent on in-house investing. He characterized the change as an opportunity cost, and clarified that the funds would only be spent in the eventuality that someone was hired.

Co-Chair MacKinnon referred to maintaining the balance in the state savings accounts, and referred to a Standard and Poor report that indicated the proposed \$3.3 billion draw would require a savings capacity of approximately \$100 billion. She wondered if there was a plan in place to ensure that there was \$100 billion was in savings.

Commissioner Hoffbeck stated that currently the funds were not of a size where savings would fund everything. He stated that the plan was to supplement with other revenues in order to get to a balanced budget. He did not think the permanent fund would be large enough in the foreseeable future to totally support government; rather, it would always require a combination of earnings plus other revenues to fully fund the budget.

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Co-Chair MacKinnon asserted that Alaskans were concerned about maintaining the permanent fund dividend (PFD). She wondered why, instead of taking the proposed draw and capping the PFD, would the proposal not shrink government and form a long-term plan towards growing savings.

Commissioner Hoffbeck relayed that the issue had been discussed, and stated that there were not sufficient funds to drive all monies towards savings and then draw out funds. He reminded the committee that once funds were in savings it was only possible to take out the sustainable draw, rather than the full use of the funds. He proposed that cutting the \$1 billion in shortfall would be very difficult, and so the governor had proposed a balance of some new revenues and some cuts. He stated that ultimately the plan had a toggle switch in the case that the state was at a point where it did not need funds flowing in to the earnings reserve account (ERA) to fund government, the funds would start going in to the corpus.

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Co-Chair MacKinnon recounted that the Senate had proposed an additional \$250 million in cuts to the operating budget the previous year. She noted that some proposed cuts had been contentious.

Co-Chair MacKinnon asked about pension obligation bonds, which had not been received well by the legislature thus far. It had been indicated in a report by Standard and Poor (and subsequent media coverage) that the consideration of bonds was one of the factors which had negatively influenced the state's credit rating. She was interested in how the administration would be continuing forward, as she understood that the rating agencies were watching media coverage and finance committee activities. She thought that the legislature, as well as she personally, had communicated that pension obligation bonds would not be recommended. She wondered if the discussion would continue or if the legislature and administration could concur that bonds were not favorable at the current time and ongoing conversations on the topic could result in negative ramifications with the state credit rating.

Commissioner Hoffbeck stated that the state had made it clear to the bond rating agencies that no action would be taken without the support of the legislature. He agreed that the matter needed to be resolved expeditiously so as to send a clear message to the bond rating agencies.

Co-Chair MacKinnon expressed appreciation for the challenges faced by the Director of the Office of Management and Budget (OMB).

Co-Chair MacKinnon commented on preserving services and taking federal funds as listed on slide 13. She understood the need for preserving services, but was concerned about additional costs to utilizing federal funds. She admired the approach taken on reduction of the work force; by taking reductions through retirement, vacancies, or attrition. She expressed that the committee was looking for long term reductions in perpetuity in the budget rather than one-time increments.

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Senator Hoffman referred to a constitutional change being considered by the administration; and wondered if there

were others being contemplated, such as changes to the parameters for accessing the CBR.

Ms. Pitney looked back to slide 13, and clarified that there was only one constitutional amendment pertaining to the gasline being contemplated by the administration.

Senator Hoffman suggested that was there great concern pertaining to reduction of the PFD, and thought that an advisory vote or constitutional amendment had been discussed. He referred to slide 5, "Message Received," in which reference was made to preserving a dividend program. He wondered if the administration had discussed constitutional protection of the PFD.

Commissioner Hoffbeck stated that the department had not looked at a constitutional provision to protect the PFD program. He thought that future actions would be largely determined on decisions that were made on the methodology calculating the dividend for the future.

Senator Hoffman commented that using the phrase "preserve the dividend program" gave a false impression if the dividend program was being reduced and not in fact protected. He understood the magnitude of the program, and agreed that additional drastic cuts were needed. He added that it would be possible to add programs back if cuts were too deep, but if the fiscal gap was not closed there would be few options.

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AT EASE

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RECONVENED

Senator Dunleavy discussed a conversation he had while the committee was at ease. He mentioned the Northern Tobacco Securitization Company and referred to the budget cuts in the amount of approximately \$800 million during the previous legislative session. He discussed the effects on the general public and suggested that there were no discernable negative effects that he had observed. He wondered how the administration had determined the state's tolerance for cuts. He thought it was possible to make further cuts. He found it difficult to support taxes at

this time. He thought more efficiencies could be found before asking the public to pay taxes.

Ms. Pitney asked the question, "What kind of state do we want to live in?" and thought draconian cuts could have been made, and then caused tremendous economic recession. She thought there were many options, and acknowledged that dialogue and ongoing scrutiny of the budget were important parts of the process.

Senator Bishop responded to Senator Dunleavy's comments and related that there were people he knew that were business owners and were considering laying off upwards of 150 construction workers per contractor.

Co-Chair MacKinnon pointed out that Alaska's unemployment rate was almost 1.1 percent higher than the national average. She noted that investments in the capital budget since 2008 had helped mitigate the effects of the national recession, yet currently the state was facing additional challenges.

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Vice-Chair Micciche referred to the governor's proposed Permanent Fund Protection Act (PFPA) and reminded the public that the SBR was gone, the CBR would be gone by FY 18 if conditions did not improve, and the ERA would be gone soon after. He thought the PFPA was appropriately titled, but echoed Senator Hoffman's comments and questioned using the word "preserve" in reference to the PFD program. He emphasized Alaskans needed to understand that without action, the PFD would no longer exist. He thought it was unrealistic to discuss cuts that would reduce the budget to meet current revenue levels. He thought there was substantial room for cuts, but thought a paradigm shift was needed and other means had to be considered to solve the fiscal problem.

Senator Olson referred to the comments by Senator Dunleavy and related that his constituents had felt significant effects from recent budget cuts. He mentioned cuts to the Department of Public Safety, and communities that were dependent upon a village public safety officer (VPSO). He discussed cuts to the Department of Corrections. He discussed children that would be affected and cuts to the Head Start program. He relayed concerns regarding a 5

percent cut to Behavior Health in the Department of Health and Social Services. He spoke to the increased rate of suicide in the state and thought the cuts would have a direct negative impact.

Senator Bishop commented that there was two types of spending: one that provided services, and "good" spending that created wealth.

[9:50:45 AM](#)

Co-Chair MacKinnon addressed the reduction to behavioral health services, and asked Ms. Pitney to discuss an increase to spending and cost shift that would result in additional services through Medicaid expansion. She mentioned a grant that would be helping schools with suicide prevention. She discussed her work on the Suicide Prevention Council, and referenced using the grant funds to do larger programs with school districts in the state.

Ms. Pitney shared that behavioral health grants to particular non-profits were exchanged for coverage for individuals who would use behavioral health centers. She noted that there would be a significant business change as the centers shifted from direct state grants to getting Medicaid funding attached to individuals. She thought that over time there would be changes to the delivery system. She continued that with Medicaid expansion, there was a population that could access behavioral health that could not in the past.

Co-Chair MacKinnon expressed appreciation for the candid conversation and varying perspectives offered by the committee members. She thought it was important for Alaskans to be aware that everyone was working toward resolution.

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Ms. Pitney discussed the document "FY 2017 10-Year Plan," (copy on file). She referred to page 2, and addressed Table 1, "FY2017 Expenditure Summary and Fiscal Plan Direction," which she stated would provide direction to the administration's expectations for UGF spending. She discussed the three categories of UGF operating budget spending: education; 'health, safety, and justice'; and 'transportation and other agencies'. She pointed out the

column listing the FY 17 budget request; and columns displaying the percentage and monetary change between FY 16 to 17, and FY 15 to FY 17. Additionally, there was a column listing planned total change in funding by FY 19. She noted that the spending plan for education included no increase or decrease after the FY 17 budget, with the intent to preserve education. The other two categories would see continued reductions. She pointed out a 27 percent reduction to date in the 'transportation and other agencies' category, for a total of almost \$200 million in savings; as well as continued reductions to follow. She detailed that the reductions would be made through changes in services, changes in funding sources, and efficiencies.

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Ms. Pitney continued to discuss Table 1, pointing out the subcategory of "Other Expenses and Investments" which included oil and gas tax credits. She conveyed that the administration wanted to bring the oil and gas tax credits spending to a steady \$100 million. She noted that the current year's budget included \$73 million with transition funds for reform. She addressed debt and retirement, which included financing pension obligations and a constrained general obligation bond approach that would fund a capital program of approximately \$250 million per year. Additionally, the same funding category would also finance the gasline. She discussed community revenue sharing, which would be restored to \$50 million in FY 17 and then to \$60 million by FY 19. She characterized the administration's plan as a very flat revenue plan, with inflation-only growth and very constrained government spending. She noted that the plan would push all previously state-funded development costs back to communities, while preserving community revenue sharing. She pointed out a significant change in funding to communities.

Ms. Pitney continued discussing fund capitalization and transfers, noting that there was a small category of renewable energy funding. She pointed out a small capital expenditure of \$195 million (including justice reform), \$190 million of which was for real capital items. She stated that if the state funded the capital budget by debt, it could get to a steady level of approximately \$75 million for items that were not bondable. If the state chose not to fund by debt, and funded with cash, the amount would change

to \$250 million with only a small decrease on the debt service side.

Ms. Pitney discussed the key investments to include the gasline project, justice reform, the rural engagement program, and other priorities yet to be determined. She asserted that other priorities would include smart money investments that the state had to preserve for, and would offset some of the state's savings.

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Senator Hoffman discussed the community revenue sharing program, and referred to the current balance of \$150 million with a three-year draw. He thought the administration would have a supplemental request of \$35 million. He noted that to restore the funding to \$60 million in FY 19 as the table indicated, an \$80 million addition would be needed to achieve the payout. He was unable to see how the revenue sharing would be funded as explained on the document.

Senator Hoffman asked about funding levels listed on the UGF operating budget section of the table. He noted that FY 16 to FY 17 listed a reduction of \$140, and the current year's reduction was \$100 million. He wondered how the \$100 million reduction (outlined in the governor's state of the budget address) compared with the \$140 million reduction listed on the table.

Ms. Pitney explained that the \$140 million was inclusive of the investments listed on the table, and that UGF spending was reduced by \$140 million. She furthered that a combination of agency operating increases totaled approximately \$40 million for a net reduction of \$100 million UGF spending.

Ms. Pitney addressed Senator Hoffman's question about revenue sharing, outlining that the administration had proposed \$35 million in additional funding to allow for a \$50 million payout in FY 17. The additional funds were part of the operating budget bill. She specified that it would take an additional \$80 million to achieve restoration to \$60 million the following year, and it was the administration's intent to capitalize by \$60 million and increase the payout over time.

Senator Hoffman asked what Ms. Pitney anticipated as a payout to communities, and advised that one of the concepts of the revenue sharing program was to stretch the payouts over three years in order to inform communities for budgeting purposes in the second and third years.

Ms. Pitney stated that if the fund was capitalized by \$60 million by the end of FY 17, the payout would be \$53 million and then increase incrementally in the following years.

Senator Hoffman thought it was problematic that an increase was being proposed while other departments were being asked to take reductions or remain steady (including education). He thought that looking at the complete budget, all components should be participating in the reductions. He noted that in future years, restoration of the \$60 million payout for revenue sharing would require increased spending. He emphasized that he was a very strong supporter of the revenue sharing program, but believed that there should be some belt tightening.

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Senator Olson asked if the administration had contemplated changing the Public Employees' Retirement System (PERS) subsidy financing rate with communities in order to gain savings.

Ms. Pitney stated that the administration was in strong support of maintaining the state's on-behalf pension obligation payment and 22 percent PERS rate.

Co-Chair MacKinnon referred to the original revenue sharing bill, and recalled that the program was intended to shrink when funds were less available. She recognized the importance of revenue sharing for rural communities without taxing authority. She had difficulty with the administration's approach of setting an expectation of receiving additional funds when the state was facing such a significant budget shortfall. She expressed willingness to assist in re-writing the revenue sharing portion of state statute. She stated that she could not personally support an increase to revenue sharing at the current time.

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Senator Dunleavy asked about the funding for the gasline project, and wondered if the action had been taken during the recent special session, or if the request was for an additional \$38 million.

Ms. Pitney explained that the \$38 million was the FY 17 funding amount for the agencies working on the gasline. The supplemental amount in the special session had been for the FY 16 funding for the gasline.

Senator Dunleavy asked for clarification regarding the action taken in the fall during the special session.

Ms. Pitney stated that there had been three funding components in the fall, including the TransCanada buyout.

Senator Dunleavy asked about the total funds from the action in the fall.

Ms. Pitney specified that the total supplemental had been \$157 million, \$144 million of which was for the AKLNG project, and \$13 million was associated with agency operating costs. She continued that the \$38 million was consistent with the \$13 million.

Senator Dunleavy clarified that the \$38 was additional to the amounts she listed, and was not part of the vote in the fall.

Ms. Pitney answered in the affirmative.

Senator Bishop asserted that he and the committee would revisit the \$38 million request after the subcommittees had finished work and the full finance committee was meeting on the budget.

Co-Chair MacKinnon found it interesting that the administration was requesting one-time funding for what could be ongoing costs.

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Vice-Chair Micciche stated that he was a huge supporter of revenue sharing. He thought it was essential to change the program to fund critical needs for rural communities rather than what had been funded in the past. He asked Ms. Pitney

to explain the philosophy of the administration regarding increasing the investment in revenue sharing.

Ms. Pitney asserted that the administration was taking a forward-looking perspective on the communities and the local government. She continued that under the plan, the state would transition to a very strict allowance. She emphasized that the amount of funding and assistance local government had thus far enjoyed would not be available in the future. She thought the revenue sharing program was important and could balance with the lack of community grant programs in the future. She reiterated that the budget being presented was tight, with a flat revenue structure; and it would keep a local government capable of managing itself as it took on more of the funding burden.

Vice-Chair Micciche asked if the administration planned on tightening the criteria as to how the funds would be spent. He shared that communities in his district had experienced reduction in services. He discussed the dichotomy of funding a community center versus law enforcement and other critical services. He asked if the administration would come forward with legislation to provide a critical service criteria for municipal revenue sharing.

Ms. Pitney explained that under the plan, the intent was to fund the current community revenue sharing model. She opined that it was important to have strong local governments, especially considering the fiscal climate. She noted that in addition to community revenue sharing, there had been funds for community support flowing out of discretionary funds from each legislator, as well as from the governor. She discussed the difficult choice that communities were faced with as they balanced priorities with diminished funding, and thought the topic of critical service criteria was worth additional conversation.

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Senator Hoffman agreed that he would like to see community revenue sharing go forward. The communities that he represented did not have the luxury of community centers; rather, the communities depended upon revenue sharing for as much as 90 percent of their income. He surmised that in larger areas of the state, revenue sharing only comprised 3 percent to 5 percent of a community's income. He thought it was important to examine the importance of revenue sharing

in different areas of the state. He continued that the need for services in rural Alaska from the revenue sharing program was very minimal. He hoped to see a possibly scaled down version of the program that would allow the communities to keep their municipal doors open, rather than providing vast levels of service. He opined that it would be a waste of dollars and a beaurocratic nightmare to try and stipulate what the dollars were needed for and how they could be spent.

Vice-Chair Micciche clarified that he had earlier referenced spending criteria for communities because of the increase in the investment in municipal revenue sharing rather than for the program as it currently was.

Co-Chair MacKinnon communicated that the committee was poised to work with the administration on a new community revenue sharing program. She had not observed much support in the committee for increasing investment in the program in the current fiscal climate, although she recognized the need (specifically in smaller communities with no taxing authority) for some kind of state assistance.

Co-Chair MacKinnon inquired as to what strategic moves the administration would attempt in order to avert the fiscal cliff. She referred to a veto of tax credits from the previous session, and expressed willingness to discuss the merits of tax credits further. She discussed the impact of tax credits on the economy and the job market.

Co-Chair MacKinnon outlined concerns of the committee, and detailed the criteria it would use to examine budget proposals.

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Senator Bishop asserted that not only did tax credits affect one third of the state workforce, but also drove 73 percent or 74 percent of the state's revenue. He suggested that the items in the expenditure summary being presented were worthy of much more discussion.

Co-Chair MacKinnon referred to groups that were organizing in order to encourage the legislature to act on balancing the budget. She thought cuts were needed to right-size government before implementing additional revenue measures. She commented on education spending, and mentioned federal

government education spending statistics published in an article in the Alaska Dispatch News ["Alaska's education spending still outpaces the rest of the US by far" by Erica Martinson, 2/2/16]. She mentioned a news article that purported Alaska had low educational standing and results. She referred to the governor's comments on education reform, and expressed a desire to understand the intent of the administration. She thought that education spending was not achieving the desired results.

Ms. Pitney explained that there would be a group convening on the subject of education, and it would be open to dialogue and have legislative participation. She suggested that if one were to examine spending in other agencies, it would be similar to spending in education. She asserted that the administration wanted to find efficiencies, and bring education spending down over time in a considered fashion.

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Co-Chair MacKinnon expressed appreciation for the challenge of improving the education system. She relayed that she had had met with classroom teachers to discuss challenges they were facing. She recognized the struggle of individual teachers and referred to national and international performance statistics. She reiterated her own and the committee's support for education and a desire to see higher performance.

Vice-Chair Micciche discussed the varying viewpoints on the economy in Alaska. He expressed support for some of the governor's plan, and opined that elements of the plan went too far towards preserving government as it currently functioned. He thought parts of the plan reached out to industry, and parts of the plan reached out to individual Alaskans. He thought that the committee wanted to move toward less government and more dollars left in the pockets of Alaskans. He wanted to keep industry working to employ Alaskans by being creative on reducing costs. He related that his constituents were willing to support use of the earnings reserve and a sustainable draw. He thought the plan did not reflect a balance between reducing government and using savings and revenue measures.

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Ms. Pitney stated that balance was an important component, and the plan was intended to be a starting point for debate and discussion. She discussed finding the right size of government and having transparent dialogue. She asserted that \$250 million was not a significant capital program for the state.

Vice-Chair Micciche stated that due to the significantly lowered price of oil, the state had to look at the private sector and focus on finding a balance.

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Ms. Pitney drew attention to page 14, and pointed out Table 8, "Projected Savings Balances Under the New Sustainable Alaska Plan." She noted that many of the proposals for savings in the plan would take effect at the end of the current fiscal year and would be reflected in the FY 16 column. She directed attention to the row "Total Savings Beginning of Year," which reflected the total savings balance and did not differentiate between the CBR and the SBR.

Ms. Pitney specified that in FY 15 the state had a starting balance of \$15.8 billion in the combined savings of the CBR and the SBR. At the beginning of FY 16 there was a savings balance of \$10.3 billion.

Co-Chair MacKinnon asked about the location of a \$3 billion deposit in to PERS.

Ms. Pitney detailed that there had been a \$3 billion deposit into PERS and the Teachers Retirement System (TRS), which she characterized as a significant policy decision. She explained that the deposit had reduced the state's on-behalf payments from a range of \$600 million to \$800 million down to approximately \$250 million; and there was another \$2.7 billion to fill the gap.

Ms. Pitney continued, sharing that in the beginning of the current fiscal year, the savings balance was \$10.3 billion. In the beginning of FY 16 the plan established draws on savings; including \$3.6 billion to fill the deficit, a \$3 billion deposit into the ERA to accommodate the PFPA and the sustainable draw, and \$1.2 billion for oil and gas tax credits. The end-of-year savings balance was estimated to be approximately \$2.7 billion, which would become an asset

base from which the state could draw almost \$190 million in interest in 2017 if it drew an average rate of 7 percent. She added that the administration planned to draw \$426 million to balance the savings.

Ms. Pitney continued to discuss the table on page 14, highlighting that the savings balance was shown to drop to as low as \$2.4 billion and rise up to over \$3 billion. She pointed out that the plan maintained an ongoing savings level and allowed the state to sustainably take \$100 to \$150 million annually as a revenue draw. She emphasized that preserving the savings account was an underpinning facet of the plan.

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Co-Chair MacKinnon discussed cuts to the budget and the influence that legislators had with the statutorily required three-quarter vote to access the CBR. She referenced the proposed \$426 million draw (off of a proposed \$2.7 billion CBR balance) and hypothesized that if a change did not occur, there would be individuals who would pressure for more spending by using the vote as leverage.

Ms. Pitney stated that the dynamic of the CBR was a constitutional issue and the required three-quarter vote would be in effect in FY 17. She referred to continued discussion on the matter.

Co-Chair MacKinnon suggested that if the state did the reverse of what was being proposed, and money was directed to the CBR, the same scenario would be true.

Commissioner Hoffbeck stated that in the current year, there was no way to avoid the necessity of the three-quarter vote to access the CBR. He mused that gaining consensus to move larger funds, such as moving \$3 billion from the CBR to the ERA, was more difficult than an annual vote for an average draw of \$150 million. He noted that the ultimate goal of the plan was for the state not to be so dependent upon the CBR that it could be leveraged as heavily.

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Co-Chair MacKinnon believed that the 7 percent draw depicted on the table was overly optimistic, and the amount of expected return should more accurately be 4.25 percent. She cautioned that lowered funds needed to be managed differently and thought that diminished savings balances could not draw the same interest rates. She asked if the administration had considered co-locating and pooling all the state assets under the Permanent Fund Corporation (PFC), utilizing its experience in portfolio management, and eliminating all investment management within DOR. She acknowledged that the investors at DOR at times had higher returns than those of the PFC.

Commissioner Hoffbeck stated that a conversation had taken place regarding the concept of an Alaskan investment corporation that would manage not only the permanent fund but also retirement funds and some ongoing funds used for government operations. He stated that it was an active and continuing discussion.

Vice-Chair Micciche expressed appreciation for the plan that was brought forward, and surmised that some parts would be successful and some would not.

[10:48:03 AM](#)

Senator Dunleavy thanked Ms. Pitney and Commissioner Hoffbeck. He clarified that it would be very difficult to close the fiscal gap through cuts alone, but believed that reductions should be focused on in the short term. He said he was a supporter of the Goldsmith model, but thought it needed to be flexible. He was concerned that if the hard work was not done making reductions, the state would never achieve the needed cuts.

Senator Bishop thought it would be interesting to model and observe what a \$200 million capital construction budget would do in the economy, with a hypothetical income tax or sales tax applied. He wanted to see return on investments and how funds moved through the economy to create wealth.

Co-Chair MacKinnon thanked Ms. Pitney for working on behalf of the administration and the people of Alaska. She expressed appreciation for Commissioner Hoffbeck's participation. She noted that many constituents had contacted member's offices, and the questions around the committee table had been reflective of their concerns.

Co-Chair MacKinnon discussed the schedule.

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ADJOURNMENT

10:52:19 AM

The meeting was adjourned at 10:52 a.m.