

HOUSE FINANCE COMMITTEE  
FOURTH SPECIAL SESSION  
November 7, 2017  
1:03 p.m.

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CALL TO ORDER

Co-Chair Seaton called the House Finance Committee meeting to order at 1:03 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Paul Seaton, Co-Chair  
Representative Les Gara, Vice-Chair  
Representative Jason Grenn  
Representative David Guttenberg  
Representative Scott Kawasaki  
Representative Dan Ortiz  
Representative Lance Pruitt  
Representative Steve Thompson  
Representative Cathy Tilton  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Pat Pitney, Director, Office of Management and Budget, Office of the Governor; Representative Bryce Edgmon; Representative Dave Talerico; Representative Dan Saddler; Representative Louise Stutes; Representative Gary Knopp; Representative Jonathan Kreiss-Tomkins; Representative Sam Kito; Representative Geran Tarr.

SUMMARY

PRESENTATION: FISCAL OVERVIEW BUDGET GAP ANALYSIS AND FUND SOURCE BALANCES BY THE OFFICE OF MANAGEMENT AND BUDGET

Co-Chair Seaton reviewed the agenda for the day. He acknowledged Representatives Bryce Edgmon, Dave Talerico, and Dan Saddler in the audience.

^PRESENTATION: FISCAL OVERVIEW BUDGET GAP ANALYSIS AND FUND SOURCE BALANCES BY THE OFFICE OF MANAGEMENT AND BUDGET

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PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced the PowerPoint Presentation: "Fiscal Overview Budget Gap Analysis and Fund Source Balances" dated November 7, 2017 (copy on file). She relayed that she intended to demonstrate the current status of known issues regarding the budget.

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Ms. Pitney began with slide 2: "Spending: State Budget Overview." She reported the total state budget was \$10.2 billion, half of which was made up of UGF [unrestricted general fund], and of that, education was the largest expenditure, followed by PFD [Permanent Fund Dividend], Medicaid, other health programs, public safety and debt services.

- The total state budget is \$10.2 billion, and comprises:
  - o Federally funded programs
  - o Service generated revenue
  - o State funded programs and service
- Only 50 percent of the budget impacts the deficit, the unrestricted general fund portion.

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Ms. Pitney moved to the pie chart on slide 3: "Spending: State Budget Overview." The chart showed the breakdown of the \$5.1 billion in UGF spending:

- Capital, \$0.1
- Fish and Game, Natural Resources, \$0.1
- University, AVTEC, \$0.3
- Education, \$1.3
- Medicaid, \$0.6

- PFD, \$0.8
- Other Health Programs, \$0.5
- Public Safety and Justice<sup>[DP1]</sup>,
- Statewide Items, \$0.5

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Ms. Pitney detailed slide 4: "Spending: State Budget Overview":

More than 50 percent of the state-funded share of the budget is sent as direct payments to communities, providers, oil companies, and individuals. Payments are for items such as:

- Medicaid payments to providers (on behalf of enrollees)
- K-12 Schools
- Retirement payments (on behalf of communities and schools)
- School debt reimbursement
- Senior benefits
- Public assistance
- Foster care
- Oil and gas tax credits
- Permanent fund dividends

Less than 50 percent of state funded budget is spent on government services like troopers, road maintenance, ferries, airports, prisons, the legislature, Pioneer Homes, the courts, the governor's office, fish and game, etc.

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Ms. Pitney turned to slide 5: "Spending: State Budget Overview: Unrestricted General Fund Spending Trend." She indicated that the slide showed the total operating budget had gone down by 23 percent and the total budget was down 28 percent. She highlighted that the University budget was down 8 percent. Other executive departments were down 43 percent in UGF. The<sup>[DP2]</sup> debt service budget was down 52 percent.

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Representative Wilson asked about federal funds and knowing whether they had decreased.

Ms. Pitney responded that although the federal numbers were not on the slide, the information was available, specifying that federal funds had increased over the same period.

Representative Wilson reported that there might be other things that were included in the calculations that she was not aware of. There was a difference in numbers for education of about \$100 million. She asked for more details.

Ms. Pitney stated the information could be passed on.

Co-Chair Seaton indicated that those numbers could be provided via the co-chairs' offices. Co-Chair Seaton acknowledged that the meeting had been joined by Representatives Louise Stutes and Gary Knopp.

Ms. Pitney reviewed slide 7: "Budget Gap: State Budget Overview Known Increases FY 2017 to FY 2018." She pointed to Medicaid at the top of the list and suggested an increase of \$75 million. She detailed that the Legislative Finance Division (LFD) had originally proposed a figure of \$32 million, but the administration had determined the need was closer to \$75 million for FY 18.

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Ms. Pitney continued to the Alaska Marine Highway System (AMHS) funding. The Legislative Finance Division had communicated a \$40 million (a supplemental put into the AMHS Fund from prior year funds and a larger draw of the AMHS funds). There was also an additional \$4 million draw for a total of \$44 million for a status quo service level. She addressed the fire suppression increment of \$15 million, which had not been included in the administration's budget forecast. She estimated the figure would be closer to \$7.5 million, given a balance from the last year. She did not believe salary and benefits would be the full \$15 million listed on the slide, but they did not yet have exact figures. She did not anticipate an increase for the employer contribution for AlaskaCare; there were a couple of union contracts that would require an increase to employer health benefits, but it would be much lower than

\$15 million. She estimated the figure would be closer to \$5 million.

Co-Chair Seaton asked if Ms. Pitney was not anticipating a healthcare cost increase to AlaskaCare in the coming year.

Ms. Pitney responded that OMB expected the current AlaskaCare employer contribution of \$1,555 to extend through FY 19. There would be increases in the employee contribution to the premium. She continued that there was improved performance of steerage. She detailed there were several initiatives to help reduce employee healthcare costs, which were starting to bend the curve in the desired way. She noted there would be an increase in employee contributions.

Co-Chair Seaton expressed a desire to have Ms. Pitney return when the committee heard more about the issue in days to come.

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Ms. Pitney replied that the cost changes were short-term only. She agreed with Mark Foster's [financial analyst] assessment of 7 percent employee healthcare increases over the last ten years. She believed the Medicaid increase was slightly under 5 percent for the same period. She clarified she was speaking about state funding; including both brought the figure up to 7 percent.

Vice-Chair Gara referenced salary and benefits and noted that when the state started running out of money there had been negotiations with employee unions; the unions had agreed to two years without cost of living increases. He asked if there would be no cost of living increases in FY 18.

Ms. Pitney replied that it depended on the contract. She explained that several of the contracts would see no cost of living increase, while the PSEA [Public Safety Employee's Association] had just been finalized and did include an increase. The Alaska Correctional Officers Association (ACOA) had received an increase in the current fiscal year.

Vice-Chair Gara asked about other unions. Ms. Pitney answered that most union contracts did not include cost of living increases. She would follow up with a list.

Vice-Chair Gara asked for verification that FY 18 was the last year without a cost of living increase. Ms. Pitney answered in the affirmative.

Vice-Chair Gara thought that someone would have to take the lead on healthcare costs. The committee had seen studies by Mark Foster regarding combining healthcare plans and other. He wondered if OMB was going to take the lead on healthcare cost reduction.

Ms. Pitney replied that OMB was meeting with Department of Health and Social Services (DHSS), Department of Administration (DOA) and Department of Commerce, Community and Economic Development (DCCED) internally. All three departments were working in separate areas, while OMB was taking an umbrella view as to how to move together to address healthcare costs as a unit. She reported about \$1.2 billion state funding went to Medicaid, employee healthcare, and retiree on-behalf payments, as well as retirement contributions. She factored in healthcare for corrections, juvenile justice, and associated with a recent federal waiver in the private insurance market. She elaborated that if the figure continued to grow at 5 percent versus an inflation-only forecast, it would be a \$200 million difference in the budget in several years. The numbers represented initial overview cost pieces.

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Vice-Chair Gara asked if the administration would be introducing an initiative about healthcare cost containment in January [2018].

Ms. Pitney indicated that the administration would be continuing to focus on initiatives to reduce cost. She was not prepared to say a major proposal would be introduced. She stated it was a big enough issue that there would be numerous ideas. Healthcare costs were the biggest cost driver in the budget, but the solutions were not simple, and any solution would affect everyone. The administration would continue to focus on healthcare costs and what could be done.

Co-Chair Seaton recognized Representatives Johnathan Kreiss-Tomkins and Sam Kito in the audience.

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Representative Ortiz pointed to the \$44 million for AMHS on slide 7. He asked for verification the amount represented the total draw down from the AMHS operating fund.

Ms. Pitney replied that it was from the AMHS Fund (generated by fare revenue).

Representative Ortiz asked how much was in the fund after the \$44 million draw down.

Ms. Pitney responded that the operating budget compromise the past session, a deposit had intended to be \$30 million in the FY 17 budget. However, due to the Constitutional Budget Reserve (CBR) cap and higher than expected supplemental items, the figure had only been \$23 million. She explained that the governor intended to replace the funds; however, if the \$23 million was not replaced via a supplemental, the fund would be exhausted in as early as April [2018].

Representative Ortiz asked Ms. Pitney how the funds had been used by AMHS. He wondered if it had operated as a buffer fund.

Ms. Pitney answered that the fund had been used for operations, but it only funded partial service. She specified that roughly 35 percent to 40 percent of money for AMHS was generated through fares; the remaining portion was funded with general funds. Both fund sources were used to operate AMHS. Funds from the fares had provided cash flow certainty and a buffer. She elaborated that the legislature could choose to appropriate additional money when necessary. Under the proposed scenario, "there's not the cash that exists."

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Representative Ortiz referred to slide 6. He wondered how much the Department of Transportation and Public Facilities (DOT) budget had been reduced from 2015 to 2018 and what portion of the reduction impacted AMHS.

Ms. Pitney answered that DOT had significant reductions. She did not have the detail on hand.

Representative Ortiz asked if had also had AMHS significant reductions.

Ms. Pitney confirmed that both [DOT and AMHS] had experienced significant reductions.

Ms. Pitney reported that as part of the Medicaid reform effort, there had been an expectation of lower inmate healthcare costs. Medicaid had picked up a significant part of inmate healthcare costs, but the reduction had not been as significant as expected due to increases in healthcare costs. She detailed there had been a supplemental request for \$10 million the preceding year. An additional \$10 million would be needed for FY 18 to cover healthcare costs (it had not been a part of the FY 18 base).

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Representative Wilson believed a few inmates had gone to the Lower 48 because of more affordable health costs. She detailed that there had been up to \$500,000 in savings for one person. She wondered why the Department of Corrections (DOC) was not using things such as electronic monitoring and halfway houses to reduce the costs. She understood that Medicaid expansion would pick up the healthcare costs, but not while a person was in a [correctional] institution.

Ms. Pitney replied there was a case-by-case review of every option that considered public safety and cost.

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Representative Wilson recalled the legislature had received information about what the illnesses were. Remarked on the idea of turning a halfway house into medical facility in order to utilize Medicaid expansion and private insurance. She asked if the option had ever been considered.

Ms. Pitney was unsure about whether the administration had looked at an inmate healthcare facility separate from a prison.

Co-Chair Seaton thought it would be appropriate to ask DOC.

Representative Wilson stated the committee had received information on Medicaid expansion pertaining to halfway houses and electronic monitoring. She hoped the idea could be added to the conversation. She hoped it could be added and remarked that the decision pertaining to Medicaid expansion had only been in place for a year. She speculated that a person being treated with dialysis would not run off. She reasoned that it was the time to rewrite contracts pertaining to mental health issues and other medical issues. She believed it was better than sending patients out of state. She wondered if there was another avenue to take, while maintaining savings.

Co-Chair Seaton relayed that the committee would be talking about healthcare later in the week.

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Ms. Pitney continued to address slide 7 titled "Budget Gap: State Budget Overview." She detailed that Mt. Edgecumbe facility funding had been changed to the Public School Trust Fund. She detailed that LFD showed it as an increase in UGF; the fund source was also available in future years. The administration anticipated debt service would be reduced by \$4 million. At the end of the last session \$8 million had been appropriated as a one-time increment to the Community Assistance Program on top of funding from the Community Assistance Fund.

Ms. Pitney explained that due to a change in the oil price and production forecast, the oil and gas tax credits were expected to increase by \$118 million over the prior year. The Public Education Fund had been used for a one-time reappropriation from the [indecipherable] road district; the \$17 million would most likely need to be replaced with ongoing revenue. She highlighted the actuarial increase of \$107 million in state assistance to retirement. The total operating increase anticipated by OMB was \$360 million compared to the LFD estimate of \$347 million.

Ms. Pitney addressed the capital budget line on slide 7 and relayed that \$93 million represented reappropriations made in the capital budget the last year. She elaborated that reappropriations were the prior year's dollars and did not add to the bottom line total. If the state had the same capital budget as the prior year, it would be necessary to add \$93 million. Fiscal notes, program sunsets, and other

one-time items had a relief of \$65 million - some would materialize, and some would not. She added that some of the items pertained to justice reform. In order to fund services at the same level of the prior year the total increase was \$388 million.

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Vice-Chair Gara understood there was an austerity capital budget of \$93 million. He believed the average prior to the state's fiscal crisis was around \$500 million to \$600 million per year. He was concerned that a capital budget of \$93 million would perpetuate deferred maintenance and the slide in construction jobs. He wondered if the governor would consider proposing the capital budget that would meet the needs with the understanding he would need to veto it if the legislature failed to devise a fiscal plan.

Ms. Pitney would not presume what the governor would choose to do on the capital budget, which would be released in December. She explained that the \$93 million had been added to the \$132 million capital budget through reappropriations. She noted it did not count the Juneau Access Road reappropriation. The total capital budget had been \$225 million.

Co-Chair Seaton surmised that the number was indicating one-time funding of \$93 million. He surmised that the \$93 million would have to come from another funding source in the future.

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Ms. Pitney moved to slide 8. The budget change of \$388 million on slide 7 was added to the FY 18 budget of \$4.3 billion, which resulted in \$4.7 billion FY 19 base budget without the Permanent Fund Dividend. The new revenue forecast projected slightly over \$2 billion, which left a deficit of \$2.7 billion. She pointed to the Senate's Permanent Fund plan with a 75 percent government/25 percent dividend split, which would result in a gap of \$638 million. Whereas, the House Permanent Fund plan with a 67 percent government/33 percent dividend split would result in a gap of \$863 million. The slide included projections for FY 19, FY 20, and FY 21; the differences on spending were due to known increases for retirement and debt, credits, and inflation.

Representative Kawasaki pointed to an LFD (20-year lookback) agency summary capital budget handout he had distributed (copy on file). He asked if maintaining flat service levels included the general funds going towards the capital budget.

Ms. Pitney believed it reflected a \$225 million capital budget with inflation.

Representative Kawasaki asked if it was \$225 million going forward to an unknown time. Ms. Pitney agreed.

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Representative Kawasaki asked for verification that the UGF and designated general funds (DGF) for the capital budget would be \$225 [million] going forward.

Ms. Pitney responded in the affirmative.

Representative Kawasaki observed that the numbers [in the LFD capital budget lookback] showed that the capital budget was smaller than it had ever been in twenty years. He stated his concern that the \$2.7 billion budget gap was understated. He remarked that the Associated General Contractors were meeting the following day to discuss the capital budget. He asked about unanticipated costs that would be reflected in future budgets if the state had an austere \$225 million [capital] budget going forward.

Ms. Pitney asked Representative Kawasaki to elaborate on his question.

Representative Kawasaki remarked on the \$1 billion in deferred maintenance for the University of Alaska's statewide system. Additionally, there was another \$1 billion in state infrastructure deferred maintenance. He added the figures did not include local communities with their own schools and boroughs. He asked about the risk of having a capital budget fixed at \$225 million for 10 years.

Ms. Pitney responded that capital budget [of \$225 million] would cover federal match and minimum deferred maintenance; it would not cover any new facilities. The forecast on slide 8 was a representation of the FY 18 service level. The slide did not represent the governor's intention or a plan going forward.

Representative Kawasaki asked for verification that the figure did not include any deferred maintenance and only included capturing what the federal match may be.

Ms. Pitney clarified it was federal match and minimum deferred maintenance. She detailed that federal match was just over \$120 million. Additionally, there were other capital programs traditionally funded through the capital budget. It left a very small amount for deferred maintenance overall.

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Representative Kawasaki believed the state's budget deficit was larger than \$2.7 billion. He observed that capital budgets in the past 20 years had been substantially larger. He elaborated that there was \$2 billion in deferred maintenance at present, meaning the state had not kept up with its deferred maintenance needs for several years. He believed it was an understated scenario when looking at the current deficit and what the future deficit would look like. He hoped the administration and legislators recognized the issue.

Representative Wilson asked if House and Senate Permanent Fund plans anticipated at 6.5 percent annual return (as shown in another handout received by the committee).

Ms. Pitney answered that the base scenario shown on slide 8 was built on a 6.95 percent return. She expounded that the 6.5 percent return was information received shortly after the presentation had been compiled. The 6.5 percent return meant a revenue shortfall in both plans of about \$100 million four to five years out. She explained that the change in return did not make a substantial difference in the FY 19 to FY 21 timeframe due to the lagging five-year average.

Representative Wilson wondered about available data lowering the rate from 6.95 to 6.5 percent annual return.

Ms. Pitney answered that the scenario spreadsheets she planned to address later on used the 6.5 percent annual return.

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Representative Wilson wondered why the return had been 6.95 percent. She assumed data had projected the return and she was trying to determine what changed. She asked why the annual return had been changed to 6.5 percent.

Ms. Pitney responded that the Alaska Permanent Fund Corporation's (APFC) advisor Callan Associates had reduced its ten-year outlook from 6.95 percent to 6.5 percent. She added the advice had recently been given at an APFC board meeting.

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Representative Wilson requested a copy of the back-up showing the reason Callan had recommended changing the 6.95 percent to 6.5 percent. She considered that 6.5 percent was also too high. She did not want to make mistakes when looking at possibly utilizing any of the money to fund government.

Co-Chair Seaton added that the director of APFC would be meeting with the committee soon and could share the information from Callan Associates. He did not believe the data fell under OMB's purview.

Representative Wilson was fine with APFC providing the information. She would appreciate the information prior to the meeting so she could review the material and be prepared with questions.

Co-Chair Seaton would look into what information APFC was able to share. He thought there may be some confidentiality pertaining to the work product provided by Callan to APFC.

Representative Wilson requested a higher view of the factors that went into Callan's recommendation.

Co-Chair Seaton replied that he would submit the request.

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Vice-Chair Gara spoke to the difference in the House Permanent Fund plan and the Senate's plan. He noted that the Senate's plan included dividends of approximately \$1,000 and the House's plan included dividends of approximately \$1,250. He stated that the \$250 difference had always appeared as \$170 million to \$180 million. He observed that the presentation showed a difference of \$230 million. He asked for detail.

Ms. Pitney replied that as the Permanent Fund value increased, the amount from the 5 percent or 5.25 percent lagging interest increased. As that took place, the spread between a 25 percent dividend and a 33 percent dividend widened.

Vice-Chair Gara stated that the Permanent Fund Earnings Reserve Account (ERA) contained much more than it had the preceding year. He surmised that under those formulas it would lead to a larger dividend and a larger difference.

Ms. Pitney responded in the negative. She explained that the dividend was based on the draw of 5.25 percent over a prior five-year average. Over time the actual net difference in cost of the dividend would grow from \$150 million to \$225 million to \$250 million because of the 25 percent versus 33 percent calculation. The percentage drawn would be the same.

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Representative Guttenberg spoke to the "no federal cost shifts" bullet point on slide 8. He wondered if OMB had determined that the state had done all it could do make additional shifts. He wondered if there were any areas or scenarios that were shifting that would allow for additional shifts.

Ms. Pitney replied that slide 8 represented more negative consequences. She explained that if oil price and production forecasts were not met, the revenue figure would drop and the budget gap would increase. She elaborated that if agency costs could not be kept at inflation or below, the budget gap would grow. She explained that the bullet point "no federal cost shifts" applied if the federal government did not shift costs back to the state. She explained that with healthcare uncertainty, it could be a

significant move back. There were other federal programs that the legislature would have to contemplate whether it wanted to fund or not. The slide assumed the state would only get more costs shifted from the federal government to the state. She addressed K-12 school increases that grew close to 5 percent for many years. The base scenario on slide 8 included a 2.25 percent increase with no student growth built in. All four items would increase the budget and did not take into account Representative Kawasaki's concern that there was not enough built in for the capital budget.

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Ms. Pitney turned to slide 9, which she had covered in response to Representative Guttenberg's question. She addressed healthcare cost containment efforts and explained the forecast had been built in at inflation only of 2.25 percent. She detailed that if costs could be maintained at 5 percent instead of the quoted 7 percent, it would be a difference of approximately \$100 million. Keeping the increase at 3.5 percent instead of slightly over 5 percent would mean another \$100 million. A cost increase of 2.25 percent meant another \$100 million. She highlighted criminal justice initiatives that could increase costs. She spoke to market correction that could impact Permanent Fund earnings. She detailed that 6.95 percent and 6.5 percent increases had been built in. She spoke about the period between 2007 and 2015 and explained it would be a difference of almost \$500 million at an average 6.5 percent draw.

Ms. Pitney elucidated that the House and Senate plans had very structured draws on the Permanent Fund: 5.25 percent on a lagging five-year average, which would drop to 5 percent over time. She detailed the structure had been decided on based on what was sustainable for the fund to grow or maintain its value in real terms. She explained that if the legislature took \$500 million more out of the fund for a period of five years, the draw would produce \$150 million less annually in perpetuity. She furthered that taking \$500 million more per year for ten years would mean \$400 million less per year in perpetuity. She explained that an overdraw would take for today what should be available for generations in the future. She stressed it was a substantial amount of money. She noted that instead of doing \$500 million in new revenue for five years, it

would mean putting a \$650 million new revenue to stay even because what the state would get from the Permanent Fund would be \$150 million less. Overdrawing the ERA in the near-term created a larger gap in the long-term.

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Co-Chair Seaton asked if the Healthcare cost containment efforts looked at agencies or included the state's unfunded liability to Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS).

Ms. Pitney answered that the cost containment efforts looked at all healthcare cost issues including Medicaid, juvenile justice, corrections, and employee healthcare costs. The cost included everything that passed through the state budget and retirement. The state paid 22 percent on every employee in PERS and 12.5 percent for TRS, which was part of the healthcare cost. The total healthcare cost was \$1.2 billion.

Co-Chair Seaton asked if a 1.5 percent change [in the percentage rate] was the equivalent of \$100 million. He asked for clarification.

Ms. Pitney replied that the difference was 1.25 percent. She detailed that an increase from 2.25 percent to 3.5 percent was \$100 million four years out.

Representative Guttenberg shared that he always advised a new governor or mayor that they did not want to be the person who got caught short on disaster planning. He was sure disaster planning and preparedness was a departmental effort. He wondered if there was sufficient money available to take care of a disaster without calling the legislature in [to a special session].

Ms. Pitney responded that if a prudent balance of \$2 billion was left in the CBR (the balance was getting low at present), it would be sufficient to address most natural disasters in a stable fiscal environment.

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Ms. Pitney highlighted slide 10: "Budget Gap: State Budget Overview: Budget Gap Under Various Assumptions." She referenced the budget gap of \$638 million factoring the

Senate's Permanent Fund plan and the \$863 million gap factoring in the House's Permanent Fund plan (slide 8). She returned to slide 10 and highlighted the \$618 million gap under the Senate plan compared to the \$836 million gap under the House plan. The gap would be somewhere in the middle if the legislature had a compromise dividend plan. She elaborated that if oil prices increased to \$65 per barrel, the gap would be \$370 million, while a decrease in the price of oil to \$50 per barrel would mean a \$910 million gap. She noted that any of the circumstances shown on the slide was as valid as the next.

Ms. Pitney continued to a bar chart on slide 11 that showed the various scenarios over time. The slide also included the budget gap scenario if a market crash occurred. She explained that if the experience from 2007 to 2015 repeated itself, a market crash would result in a budget gap between \$700 million and \$900 million. With a compromise dividend and oil prices at \$50 per barrel, the gap would worsen over time (to over \$1 billion in 2025). Under a scenario with a compromise dividend and revenue, the gap would decrease over time from FY 19 to FY 25.

Representative Kawasaki thought the explanation on a prior slide regarding the budget with flat service did not include the dividend. He spoke about taking the number and putting it on page 10 with baseline revenues and Permanent Fund earnings. He noted that the dividend was larger in the House bill than it had been in the Senate bill.

Ms. Pitney explained that the gap in the Senate plan was \$600 million and the gap in the House plan was \$800 million. The gap was larger in the House plan due to the dividend difference.

Representative Kawasaki looked at the first column titled "Senate SB26" on slide 10 and observed that the 2019 baseline revenue plus the Permanent Fund earnings minus the budget resulted in a gap of \$618 million. He referenced the second column titled "House SB26," which had a higher dividend.

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Ms. Pitney clarified it reflected the Permanent Fund earnings draw that would cover government. The remainder would go to the dividend. The slide excluded the dividend,

but because the dividend was higher in the House plan the gap was higher.

Ms. Pitney continued to speak to slide 10. She pointed to the second bullet point and explained that with revenue and the CBR the legislature could avoid overdrawing the Permanent Fund. The Permanent Fund needed to be viewed as the state's primary revenue stream. She specified \$600 million was a prudent target for revenue; currently the state was looking at \$320 million plus proposed taxes (HB 4001, motor fuel tax, and other small fee increases).

Ms. Pitney reviewed the graph on slide 12: "Savings: State Budget Overview: FY 2010-2018 State Revenue and Expenditure (Without Dividend)." She noted that fortunately between 2010 to 2012 the state had been building its reserves. She highlighted the deficit area between revenue and expense in the past several years; the state had consumed the \$14 billion even with a 44 percent decrease in state UGF since FY 13. Unfortunately, revenues had decreased more dramatically. The state had spent \$14 billion from its savings over that time period. She added that the state's constitution required repayment of the CBR back to its peak in FY 13. The spending of the CBR and the decision to not sweep the funds required a three-quarter vote [by the legislature]. She continued that the CBR would be part of the budget discussions going forward. She surmised that even under the best circumstances the \$14 billion was unlikely to be repaid in full.

Ms. Pitney continued to slides 13 and 14. She stated that the state had been fortunate to have the CBR to draw the gap. The administration believed \$2 billion should be maintained in the CBR to help address volatility facing the state. She stressed that even if the Permanent Fund plan and a broad-based revenue were enacted Alaska would still be more volatile than any other state in the nation. Currently Alaska was three times more volatile than the next most volatile state, which was either Wyoming or North Dakota. She advised that maintaining the existing CBR balance (or very near the existing balance) was prudent. The state currently used about \$1 billion per year from the CBR for cash flow. If anything unexpected arose, having the CBR to use (rather than having to go ad hoc to the ERA) was a much better plan because overdrawing the ERA would cost a significant annual revenue stream in the future.

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Ms. Pitney highlighted other fund balances on slide 15. The Power Cost Equalization (PCE) Fund had a balance of just over \$1 billion. She detailed the account was responsible for funding PCE payments of about \$40 million. There were also provisions allowing the account to fund community assistance and renewable energy. The Higher Education Fund had a balance of \$339 million (the asterisk next to PCE and the Higher Education Fund indicated they were quasi-endowments established by the legislature). The Higher Education Fund provided for scholarships, but over the past three years it had also funded several programs including the Washington, Wyoming, Alaska, Montana, and Idaho (WWAMI) program, the Online With Libraries program, a teacher mentor program, and other. The programs used the annual earnings from the quasi-endowment. The Alaska Housing Capital Corporation Account had a balance of \$22 million derived from the Amerada Hess settlement.

Ms. Pitney continued to address slide 15. She mentioned the Capital Income Fund. The Community Assistance Fund had a balance of \$60 million; without additional deposits it would be a \$20 million payout in FY 19. The Vessel Replacement Fund had paid for the recent Tustumena [ferry] replacement and had a remaining balance of \$22 million. She mentioned a line related to various smaller funds. The Public School Trust Fund had a balance of \$623 million. She detailed it had an old endowment structure for the payout - it paid out only earnings from the prior year versus a percent of market value (POMV) payout. She noted legislation had been introduced to change the fund to a more modern POMV payout, which would return more on an annual basis and would decrease volatility.

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Representative Wilson asked why the accounts listed on slide 15 were DGF and the Permanent Fund was UGF. She reasoned the dividend had been made for a specific purpose, but it would be UGF, while the other accounts were DGF.

Ms. Pitney answered that the UGF designation was under the assumption that the ERA was used by the legislature for something other than the PFD only. She explained that one could argue that it was not reclassified yet. The administration asserted that with the SB 26 framework on

both the House and Senate side, it was a UGF funding source.

Representative Wilson did not understand the reasoning. She explained that the funds listed on slide 15 could be used for whatever the legislature wanted although it chose not to. For example, the legislature could elect to take the \$1 billion from the PCE Fund and put it in the General Fund. She noted they could do the same with Permanent Fund earnings. She wondered why there was a designation difference. She added that fuel tax had also been determined to be DGF. She thought there had to be some type of checklist determining which category a fund fell under. She pointed out that the dividend had not been classified as UGF until recently.

Ms. Pitney replied that the LFD Swiss Army Knife Handbook included rules for designation. She explained that if statute designated the funding to a particular purpose it was considered designated. She agreed with Representative Wilson that any of the funds could be used for any purpose or reverted into the General Fund. She elaborated it was a choice to have the designation. She saw two distinctly different pieces of DGF. One that was earned (like ferry revenues) for a particular direct service. For example, the purchase of a fishing license, paying for a class at Alaska Vocational Technical Center (AVTEC) or the University, or buying a ferry ticket. She explained the items were truly DGF and would not be earned unless the service was provided. The second type of DGF included things like alcohol tax, marijuana tax, the recidivism fund, and other funds from particular tax revenues that were set aside. How the items should be classified was a policy discussion. She added that OMB calculated a net zero shift of approximately \$600 million would go into UGF if the passthrough dollars were classified as UGF instead of DGF.

[2:15:32 PM](#)

Representative Wilson stated there was statute for Higher Education Fund and most of the other funds on slide 15. She stated Permanent Fund Dividend was designated in statute. She remarked that so many of the spreadsheets in the past did not include the Permanent Fund, but the ones before the committee did (although no earnings had been used). She believed it made it harder for the public to do comparisons. She thought that most would assume the

Permanent Fund would be considered DGF until at some point the ERA was utilized. She thought it was a policy call and surmised that they may not need all of the funds. She believed the funds made things more confusing because borrowing from DGF made it appear UGF went down, but in reality they were still spending the same amount of money if not more.

Co-Chair Seaton explained that the last year all the reports had been in UGF and all GF for the purposes of comparison. He asked for verification that if the PCE Fund generated over a certain amount it would flow over into the Community Assistance Fund. He asked if money had been transferred into the Community Assistance Fund.

Ms. Pitney responded that there was a provision that if there were sufficient earnings an appropriation could be made to the Community Assistance Fund from PCE as well as for energy assistance. In FY 17 there were sufficient earnings, which would require that the legislature appropriate the funds going forward. She noted as written it would be expected to be an FY 19 deposit.

Co-Chair Seaton asked about the mechanism was part of the governor's budget. He asked what the mechanism for the determination was.

Ms. Pitney answered that the administration had not included community assistance from UGF when it put forward its FY 18 budget. She specified it had been the administration's intent to include the funding as a supplemental item if a fiscal plan had been adopted. In a structured way the PCE deposit would be in FY 19.

Co-Chair Seaton asked if the item showed up in the governor's budget as an appropriation if there were sufficient earnings in PCE. Alternatively, he wondered if the legislature had to do it separately.

Ms. Pitney replied that the appropriation could show up in the governor's budget, but decisions on the upcoming FY 19 budget had not yet been made.

Co-Chair Seaton was trying to determine where the PCE mechanism would come forward, so everyone would be aware of its location. He thought the topic would be discussed further.

2:20:01 PM

Representative Guttenberg remarked that slide 15 indicated that PCE and the Alaska Higher Education Fund were set up as quasi-endowments. He asked if the earnings of PCE rolled back into the PCE Fund at the end of the year. He wondered if there was a separation between the endowment fund and the earnings.

Ms. Pitney answered there was no distinction other than the calculation of the balance at the beginning of FY 17 and the balance at the end of FY 17. She stated it was merely the earnings, which all remained in the fund until appropriated.

Representative Guttenberg pointed to the asterisk next to the Alaska Higher Education Fund [indicating the fund was a quasi-endowment] and assumed the fund worked the same way. He wondered if the other funds worked in a similar fashion where there was no difference between the earnings and the fund corpus.

Ms. Pitney relayed that the remaining funds on the slide were not quasi-endowments; an appropriation was made from those funds. She noted the Capital Income Fund was funded with earnings from the Amerada Hess settlement. She explained the fund was the "parking lot" where old reappropriations went and sat. She noted she had mixed the funds up earlier when she described them. The Community Assistance Fund is one-third of the balance. She explained that the day before the end of the fiscal year one-third of the balance was available for deposit on the fiscal year. Without additional appropriations it would mean \$20 million; if there was another appropriation it would be higher.

2:22:26 PM

Vice-Chair Gara addressed the history of revenue sharing. He believed it had been \$100 million three years back, \$60 million, \$50 million, and \$38 million the past year. He stated the amount was supposed to be \$30 million in the current fiscal year; the legislature had added \$8 million in the capital budget, bringing the amount back up to \$38 million. He asked for verification that the fund balance

would be \$20 million for FY 19 if nothing more was added by the legislature.

Ms. Pitney responded affirmatively.

Ms. Pitney spoke to the line graph on slide 16: "Revenue: State Budget Overview: Alaska Permanent Fund Earnings." Permanent Fund earnings was the state's largest source of annual revenue. She pointed to the red line which reflected traditional GF revenues. The blue line indicated Permanent Fund earnings over the past several years. Assuming the value of the Permanent Fund was protected into the future, it would probably be the state's most robust annual revenue source going forward.

Co-Chair Seaton asked if the revenue on slide 16 excluded oil tax credits owed.

Ms. Pitney responded that the revenue line subtracted revenue reduction credits, but not the cashable credits that were \$600 million FY 15 and somewhat more in other years.

Co-Chair Seaton surmised that any per barrel credit and expenditure like the cash credit written against taxes owed was already incorporated. Ms. Pitney responded that those items were factored into the red line [GF revenue].

[2:25:09 PM](#)

Ms. Pitney explained the bar chart on slide 17: "Revenue: State Budget Overview Permanent Fund Earnings Over Draw Impact." Maintaining the CBR balance at a \$2 billion minimum was prudent for revenue volatility and to address any issues outside the norm, which was what it had been designed for (mostly for any type of disaster). The \$2 billion level was sensible given the state's size and the way the fund was used for early cash draws at the beginning of the year. She explained the scenario represented what would occur if the state began using the ERA after it depleted the CBR in FY 20. She elaborated that an additional \$500 million annually taken from the ERA above the structured draw would reduce the Permanent Fund balance by \$5 billion over the course of ten years compared to a structured draw with additional revenues. She explained that the scenario would produce \$250 million less annually. The chart showed how the scenario would erode the value of

the Permanent Fund and how less revenue would be generated, increasing the need for other revenue sources in the future.

Vice-Chair Gara mentioned that there had been debate over a revenue cap feature of the House and Senate Permanent Fund bill. He stated that the cap resulted in relatively small failure rates. He addressed whether there would still be sufficient funds in the ERA depending on stock market volatility. He stated that the chart did not look so awful, but if an additional \$500 million was withdrawn from the ERA annually, the chance the ERA would fail was substantially higher due to stock market fluctuations.

Ms. Pitney responded in the affirmative. The chart assumed the 6.5 or 6.95 percent increases annually; it did not factor in any market volatility. She would address volatility shortly [on the next slide].

[2:28:04 PM](#)

Ms. Pitney turned to the next bar chart on slide 18: "Revenue: State Budget Overview: Market Correction Impact." She reported that the slide showed the revenue stream using the 6.95 percent assumption. She noted the difference between the 6.95 and 6.5 percent assumptions would only be marginally different in two to three years. The base scenario showed \$2.7 billion in revenue by FY 27. Whereas, the "2007 to 2015 experience" used actual returns from FY 07 to FY 15 and showed the FY 27 draw would decline nearly \$600 million (split between government and the dividend). She stated that the scenario was unlikely, but it had occurred in 2007 to 2015. The scenario would mean being tight on the ERA; if the state overdrew, it would likely run into trouble with the ERA.

Co-Chair Seaton recognized Representative Geran Tarr in the audience.

[2:30:15 PM](#)

Ms. Pitney turned to slide 19: "Revenue: State Budget Overview: Market Correction Impact: Ten Year Forecasts: Average Return and Market Correction." She addressed scenarios in a separate handout titled "Office of Management and Budget Attachment A Scenarios" dated November 6, 2017 (copy on file). She highlighted a scenario

with a 6.5 percent annual return and the 5.5 percent dropping to 5 percent lagging average. There would be an end balance of \$76 billion in the Permanent Fund. The planned draw amount went from \$2.7 billion to \$3.4 billion under the House's version of SB 26. The fourth row on page 1 of the handout showed General Fund revenue without the dividend. Row 5 showed declining deficits (\$800 million in the near-term dropping to \$311 million in FY 27). The information was based on the FY 18 service level forecast.

Ms. Pitney elaborated that with the motor fuels tax and the SB 26 additional royalty the deficit dropped to \$265 million in FY 27. She reported that funding the remaining deficit with the ERA would mean a 5.6 percent draw in FY 19 instead of a 4.3 percent draw. The 4.3 percent was the effective draw - it was 5.25 percent of the first five of the lagging six-year average. She explained it would mean taking 5.25 percent of a smaller base, meaning the effective draw on the value would be 4.3 percent. She continued that if the difference was made up with ERA funds, it would mean a 5.6 percent draw, which was not sustainable. She added HB 4001 [the governor's proposed wage tax legislation] to the scenario [revenue was projected at \$160 million in FY 19 and \$320 million annually going forward] and using the ERA to cover the difference. The scenario would result in a 5.3 percent draw, which was not sustainable. She explained that under the various draws, instead of having [a Permanent Fund value] a balance of \$76 billion at the ten-year timeframe, with no new revenue the balance would be \$69 billion, and with no use of the CBR the amount would be \$72 billion. The ERA balance would remain strong and the second to the bottom row showed the dividend calculation over time.

[2:34:21 PM](#)

Representative Thompson asked if any of the OMB projections assumed any budget reductions.

Ms. Pitney responded that the scenario used the steady state FY 18 and known increases for retirement, tax credits, and 2.5 percent inflation. She noted that it only had 2.25 percent, so if healthcare costs were not brought down there would be no way to meet the 2.5 percent projection - and if anything was done with schools. The numbers did not include additional reductions on top of the 44 percent that had been made to date.

Representative Thompson surmised that if there were additional reductions in the future it would have an impact on the figures in the scenario.

Ms. Pitney agreed.

Co-Chair Seaton asked if inflation proofing for the Permanent Fund was included in the data. He noted that the House plan had included 0.25 percent inflation proofing.

Ms. Pitney believed the 0.25 percent inflation proofing would add to the ERA balance in the handout scenarios. The Permanent Fund values were correct, but the ERA balance would be high.

Co-Chair Seaton asked Ms. Pitney to check on the issue and follow up. Ms. Pitney agreed.

[2:36:34 PM](#)

Ms. Pitney moved to Scenario 2 on page 2 of Attachment A. The scenario used a 29 percent dividend (a split between the House and Senate plans). The difference between Scenarios 1 and 2 was the compromise dividend. The scenario resulted in a lower deficit going forward and a higher Permanent Fund value. She noted that the compromise dividend was lower at \$1,400 compared to the \$1,600 dividend in Scenario 1.

Representative Wilson asked why the ERA balance dropped so significantly between 2018 and 2019 and remained fairly stable going forward.

Ms. Pitney responded that the compromise version assumed the "4 times draw limit." She expounded that if the ERA exceeded 4 times the draw limit at the end of the year, the remainder was deposited into the Permanent Fund corpus. Under the scenario the draw was \$2.7 billion. The implementation of the 4 times draw was the reason for the drop in the ERA balance from \$15 billion to \$10 billion between FY 18 and FY 19.

Representative Wilson asked if the provision would reduce the money available for dividends and draw. She reasoned that the funds were protected once deposited into the [Permanent Fund] corpus.

Ms. Pitney replied that if the ERA was spent as a savings account versus using a structured draw of 5.5 percent, it would limit funds available to spend in an ad hoc way. She elaborated it protected the Permanent Fund and preserved anything over a necessary buffer of four years of draw; the funds went back into the corpus.

[2:40:03 PM](#)

Co-Chair Seaton surmised the reason for the zero percent draw in FY 18 was because a structured draw not been taken from the Permanent Fund. The legislature had used the CBR to fund the FY 18 budget. He noted that the draw went from zero to 5.4 percent.

Ms. Pitney agreed. She added that OMB could include the percent used for the dividend, which would be more. She reported \$760 million had come out.

[2:40:53 PM](#)

Representative Ortiz asked if the 29 percent dividend in Scenario 2 was based on the Senate's plan.

Ms. Pitney reported that it was a compromise between the House and Senate numbers of 33 percent and 25 percent respectively.

Ms. Pitney advanced to Scenario 3 on page 3 of Attachment A. The scenario used the Senate's 25 percent dividend. She highlighted two different provisions in SB 26. The first provision in the Senate's plan was an offset dollar-for-dollar what was drawn from the ERA at \$1.2 billion in petroleum revenue. Whereas, the House plan included \$1.4 billion increasing with inflation. She pointed to the ending deficit of \$523 [million] with motor fuels as the only revenue source. She moved back to Scenario 2 and explained the same issue occurred because the dividend was higher; the ending deficit in FY 27 was \$682 [million]. She turned to Scenario 1 on page 1 and pointed to a lesser deficit under the House plan with a higher dividend because of the \$1.4 billion offset versus the \$1.2 billion offset. She believed the \$1.2 billion provision versus the \$1.4 billion would be an important piece of the compromise.

Ms. Pitney turned to Scenario 4 on page 4 of Attachment A, which illustrated what would happen in the event of a market crash (modeled after FY 07 to FY 15 actual returns). The remaining deficit would be \$1 billion without any additional revenue and \$700 million with revenue. She noted there were two years of no ERA available [FY 21 and FY 22]. She added that under the scenario having the CBR in place and available was necessary.

[2:44:15 PM](#)

Co-Chair Seaton asked about the ERA and the structured draw.

Ms. Pitney replied there was some amount of structured draw; it assumed dividends were paid first. There were some funds available annually due to earnings, but not enough to cover both.

Co-Chair Seaton [indecipherable audio].

Representative Wilson looked at Scenario 4 on page 4 and observed that FY 23 and FY 24 followed two years of an ERA balance of zero. She noted that the increase in the fund balance was substantial. She surmised that perhaps it indicated that government and residents would not be getting anything. She asked for clarity.

Ms. Pitney responded that the earnings came off of the Permanent Fund value. The Permanent Fund value dropped substantially, and the earnings were not sufficient to cover both pieces. She explained that the ERA was used entirely. Market gains meant the Permanent Fund value would increase. She explained the scenario was based on the FY 07 to FY 15 actual returns experience. She clarified it was the experience using the funds going forward.

Co-Chair Seaton rephrased that in some years there were fairly large losses and in other years there were fairly large gains.

Ms. Pitney agreed the swings were offset.

Co-Chair Seaton surmised that Scenario 4 did not result in a picture where everything was beautiful and 6.5 percent was the actual income annually. He wanted to ensure people understood the other scenarios were based on the level 6.5

percent investment earnings annually, whereas Scenario 4 was based on the actual returns for the last ten years applied against the future years.

Ms. Pitney pointed out that in middle years the [SB 26] draw was \$2.1 million [Scenario 4], whereas the draw in middle years [Scenario 3] went from \$2.1 billion to \$2.3 billion, and \$2.1 billion growing to \$2.2 billion [Scenario 2]. She clarified that less was drawn because the value was less.

[2:47:31 PM](#)

Representative Pruitt remarked that the diversification of the Permanent Fund was different than it had been in the past. He wondered if there was a mechanism to understand when using historical data how to adjust for how the fund had been invested differently during times of substantial loss. He asked if it was possible to go back and estimate what the difference in loss would have been the fund had been invested more like it was at present.

Ms. Pitney replied that the question should go to APFC.

Representative Pruitt understood the concept of using historical Permanent Fund data. He wondered if it meant they should also look at the historical averages or costs of oil during the timeframe. He reasoned that they were looking at an estimate provided by DOR for one portion and historical data for the Permanent Fund. He reasoned if they used historical data for both the ERA would look terrible, but there would be other areas that may look different as well, including the remaining deficit.

Ms. Pitney responded that it was difficult to make many changes in scenarios, but she believed Representative Pruitt was saying if oil prices had been \$140 per barrel the ERA would not have been needed because other provisions would protect it. She agreed and explained it was a stress test. She furthered that even with a \$320 million modest broad-based tax under a worst-case market condition, although unlikely, there was risk. The state was not raising so much revenue that it was eliminating all market risks. She reiterated that the likelihood of the worst-case scenario was not high.

[2:50:54 PM](#)

Representative Pruitt recognized it was not possible to ever get enough examples in a stress test. He used Scenario 4 as the worst-case scenario. He wondered if it would be prudent to have a discussion that if additional revenue was generated by HB 4001, they were still far from filling the deficit if a worst-case scenario occurred. He wondered if cuts or other work related to the size of government should be done during that timeframe to give a viewpoint on what to expect if the worst-case scenario came to fruition. He surmised that the 2 percent growth shown in the scenario would probably not be sustainable.

Ms. Pitney replied that when OMB had given a similar presentation to the Senate, they had asked to include a \$200 million reduction in as a scenario. She would provide the data to the committee.

Co-Chair Seaton clarified that the stress test did not necessarily produce failure if the system was robust enough.

[2:53:10 PM](#)

Ms. Pitney returned to the PowerPoint presentation. She reviewed the information on slide 20: "Revenue: State Budget Overview Tax Proposal." The proposed tax [in HB 4001] was a 1.5 percent tax on wages. The tax would be capped at \$2,200 or twice the PFD, whichever was greater; the cap began at income of \$147,000/year. There was no net tax burden until a person reached \$75,000 per year in wages. The maximum tax burden after counting the PFD was \$1,100.

Ms. Pitney provided information regarding the bar chart on slide 21: "Revenue: State Budget Overview Tax Proposal: Per-Capita Broad-Based State Tax Revenues, By State, 2016." The tax would leave the state at the lowest per capita broad-based tax burden. The "ones below here" are largely alcohol and tobacco.

Co-Chair Seaton referred to the bullet point on page 20 indicating that out-of-state residents would pay the highest rate because they did not receive PFDs. He asked for verification that the individuals would not pay the highest rate because it was a flat rate, they would merely not receive compensation from the state in a PFD. He wanted

to make sure people understood there would not be a separate higher rate for nonresidents. He hoped in future presentations OMB would change the wording of the statement to avoid confusion.

Ms. Pitney agreed.

Representative Guttenberg referred to slide 21. He asked if a \$1,000 PFD was included it would offset taxes paid. He observed taxes paid in Alaska appeared to be about \$1,000.

Ms. Pitney replied in the affirmative.

Representative Guttenberg surmised that without the proposed tax, residents were in the positive [due to the PFD].

[2:56:13 PM](#)

Representative Wilson referenced OMB Attachment B titled "Unrestricted General Fund Budget FY2013 to FY2018" dated November 1, 2017 (copy on file). She wondered why the spreadsheet used the management plan versus actuals. She reasoned that a budget reflected the most that could be spent, not the least. She wondered why actuals would not be included as much as possible to understand what was being spent.

Ms. Pitney answered that OMB could provide the information. The data in Attachment B followed a traditional view. She detailed they could provide the data through FY 16 and OMB was in the process of finalizing FY 17 numbers.

Representative Wilson wondered if OMB added supplementals to the year the funds had been spent. She cited a \$10 million supplemental increment for DOC. She explained the funds had actually been spent the previous year. She wondered if OMB went back and added the supplemental increments to the year they had been spent.

Ms. Pitney addressed the DOC example provided by Representative Wilson. She specified that the \$10 million [supplemental increment] had been a DGF source and would shown in the DOC budget in FY 17 [the year it was spent].

Representative Wilson asked how often OMB looked at [department] vacancy rates and updated PCNs that were no

longer filled. She remarked that unfunded positions were a big issue for the public. She believed the past year the governor had asked departments to delete positions that had been vacant for six months.

Ms. Pitney responded that the information was updated in the budget process at management plan and at the governor's budget request. Both happened in the fall timeframe. The management plan represented the FY 18 currently underway and the governor's addressed plan changes for FY 19.

Representative Wilson asked if the governor intended to do a six month sweep of any PCNs. She thought there had been a caveat for positions that were necessary and had specialized criteria.

Ms. Pitney answered that the administration was looking at the issue all of the time. She detailed that 2.5 to 3 years back the administration had done the review annually. Reviews had been increased to every six months and at present they occurred every three months. She noted at three months there were many more factors. The administration was actively addressing vacancies that lingered. The scope of the remaining positions had been narrowed.

[3:01:01 PM](#)

Representative Wilson noted that the governor had included provisions focused on travel and how many positions should be filled when vacated due to attrition. She noted there had been a hiring freeze for a while and travel had been looked at very carefully. She wondered if any of the things were still in effect.

Ms. Pitney replied in the affirmative; they were restricted at the commissioner level. She clarified that it was not at an office or division level.

Representative Wilson requested a list of items asked of departments to keep costs down. Ms. Pitney agreed.

[3:02:15 PM](#)

Representative Ortiz relayed that Department of Revenue, Tax Division Director Ken Alper had testified a couple of weeks back that there were 2,500 fewer people working for

the state than there had been a few years earlier. He clarified he was not speaking about positions, but about people who were no longer working for the state. He asked if Ms. Pitney was comfortable with the figure.

Ms. Pitney replied that the figure was very close. She believed the number was about 2,600, but she had not looked at an updated figure for the current month.

[3:03:18 PM](#)

Vice-Chair Gara understood the governor was trying to build a compromise that he believed everyone would agree with. He spoke to an issue that he found concerning. He asked if at an income level of \$150,000 a person paid no tax on additional income of any amount.

Ms. Pitney replied the income level was \$147,000.

Vice-Chair Gara reviewed that the tax would be 1.5 percent up to \$147,000 of income and zero tax on earnings above that amount. He recalled that Mr. Alper had testified someone earning \$1 million per year would pay one-sixth the total tax rate paid by a low to middle-income person. He asked if Ms. Pitney had different numbers.

Ms. Pitney replied that she did not have different numbers.

Vice-Chair Gara remarked that it would not be easy to sell him on a tax rate that was lower for wealthy people than for middle and low-income earners. He believed it was also problematic that the tax would not apply to investment income. He asked for verification that money earned on stock market dividends and capital gains was exempt from the tax.

Ms. Pitney responded in the affirmative.

Co-Chair Seaton relayed that the committee would have a hearing on HB 4001 the following day.

Vice-Chair Gara recalled a slide presented to the committee in the past specifying that the state needed to raise about \$600 million if it wanted to substantially address the budget gap. He noted that the proposed tax would raise about \$325 million. He did not know how he could tell his constituents that their taxes may be raised again in the

future. He asked what the administration meant when it told the committee \$600 million should be raised.

Ms. Pitney responded that if the legislature wanted to cover the gap with revenue, \$600 million was the prudent target. Alternatively, if it was the legislature's desire to stress the budget to find additional savings, something less than \$600 million would be required. The amount would also provide the ability to maintain the CBR and likely begin returning funds back to the CBR in six to eight years; it was an insurance policy against overdrawing the ERA. Some people may not want to use the \$600 million revenue target, but to reduce spending. The \$320 million was something in the middle. The administration was looking at a way to provide fiscal certainty and connect the economy to the state services received. The question of reduced spending or increased revenue would perpetuate going forward.

Vice-Chair Gara referred to page 21 of the presentation. He asked if a scenario where the \$600 million in revenue was raised would mean Alaska would have the second lowest overall tax burden.

Ms. Pitney confirmed that Alaska's tax burden would be the second lowest [out of all 50 states].

Co-Chair Seaton thanked Ms. Pitney for her presentation and reviewed the agenda for the following day.

#  
ADJOURNMENT

[3:09:39 PM](#)

The meeting was adjourned at 3:09 p.m.