

SENATE FINANCE COMMITTEE  
FOURTH SPECIAL SESSION  
October 31, 2017  
10:02 a.m.

[Note: The meeting was held in Anchorage, Alaska at the Anchorage Legislative Information Office]

10:02:25 AM

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 10:02 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Anna MacKinnon, Co-Chair  
Senator Click Bishop, Vice-Chair  
Senator Gary Stevens  
Senator Peter Micciche  
Senator Donny Olson  
Senator Natasha von Imhof

MEMBERS ABSENT

None

ALSO PRESENT

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

SUMMARY

PRESENTATION: OFFICE OF MANAGEMENT and BUDGET - BUDGET FORECAST and FUND BALANCES

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10:03:10 AM

Co-Chair MacKinnon communicated that the Senate had worked with the administration on fact-finding for consideration

while deliberating on a tax bill. The information would provide detail on the fiscal gap.

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, discussed the presentation, "State of Alaska Fiscal Overview - Budget Gap Analysis and Fund Source Balances" (copy on file).

Ms. Pitney turned to slide 2, "Spending: State Budget Overview":

The total state budget is \$10.2 billion, and comprises:

- Federally funded programs
- Service generated revenue
- State funded programs and services

Only 50% of the budget impacts the deficit, the unrestricted general fund (UGF) portion.

Ms. Pitney reminded that the information on slide 2 was inclusive of all funding sources. She continued that when she was referring to the deficit it signified the Unrestricted General Fund (UGF) shortfall.

Ms. Pitney looked at slide 3, "Spending: State Budget Overview," which showed a pie chart depicting pieces of the state's UGF spending. She pointed out portions of the pie which included education, Medicaid, the Permanent Fund Dividend (PFD), other health programs, public safety, and statewide items. She noted that the larger portions included education, Medicaid, PFD, and health; and signified the choices when considering budget reductions.

[10:06:00 AM](#)

Ms. Pitney viewed slide 4, "Spending: State Budget Overview":

More than 50% 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% 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.

Ms. Pitney commented that half of the \$5.1 billion in state spending would be sent as a check out to individuals or communities, and the amount would be under consideration if budget cuts were deliberated.

Senator Micciche referred to slide 3 and wondered if Ms. Pitney was adding UGF and Designated General Funds (DGF) together to come up with a total of \$5.1 billion as reflected on the slide.

Ms. Pitney informed that she had added UGF and the PFD, given that the Earnings Reserve Account (ERA) would become a UGF component.

Senator Micciche stated that the representation was fair.

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AT EASE

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RECONVENED

Co-Chair Hoffman asked about what level of PFD encompassed the \$800 million listed on slide 3.

Ms. Pitney specified that there was an \$1100 PFD calculated into the figures.

Senator von Imhof asked if UGF spending was about \$4.3 billion.

Ms. Pitney answered in the affirmative.

Senator von Imhof referred to a memo that stated the UGF spending was \$4.3 billion when the budget was closed out the previous June, and- \$200 million to \$300 million in one-time funding sources as part of the budget. She wondered if the one-time funding sources were included in the figures in the presentation.

Ms. Pitney stated that the presentation started with FY 18 spending (the current year's approved budget) on slide 3, and subsequent slides would address ongoing spending with one-time revenue solutions.

Co-Chair MacKinnon appreciated transparency with regard to the budget. She referred to slide 2, which had showed a \$10 billion spend. She thought Ms. Pitney had gone on to discuss leveraging federal dollars on purpose and had focused on UGF spending. She thought the slides reflected a different way of looking at the budget in layers.

Ms. Pitney stated that what Co-Chair MacKinnon had surmised was fair was represented what she had tried to convey.

[10:12:01 AM](#)

Ms. Pitney showed slide 5, "Spending: State Budget Overview," which showed a data table entitled 'Unrestricted General Fund Spending Trend.' She listed budget categories on the slide. She reviewed reductions in various areas, listing the total operating budget down by 23 percent.

Senator Micciche asked why the slide used a comparison from FY 15 to FY 18. He pointed out that FY 13 was a spending peak and could more appropriately be used as a comparison.

Ms. Pitney stated that the administration had used different versions of budget comparisons. She noted that FY 13 had been the first year in the current oil price climate that the state ran a deficit. She specified that FY 15 had the budget that the current administration came to office with. She stated she could easily change the comparison, and then the FY 13 to FY 18 comparison signified a total UGF budget reduction of 44 percent.

Senator Micciche thought that Alaskans did not understand the comparisons that were being used. He stated that he used the FY 13 comparison frequently. He considered the

reduction from FY 13 to FY 18 to be substantial. He thought the legislature had done a pretty good job at reducing costs, although some felt further cuts could be made. He thought it was important for the public to understand the substantial reductions that had been made.

Ms. Pitney stated that the administration agreed with the 44 percent reduction, and the 27 percent reduction in operating budget reduction from FY 13. She stated that the reductions were real.

[10:16:34 AM](#)

Senator Olson looked at the 19 percent reduction reflected in the 'Medicaid & Other Health Formula' category on slide 5. He wondered what percentage of the reduction had been related to Medicaid expansion.

Ms. Pitney explained that a large portion of the reduction had been due to Medicaid expansion and increased federal funding. She expected that the category would not stay at a 19 percent reduction.

Senator Olson asked if Ms. Pitney had specific numbers to reflect the change.

Ms. Pitney did not have numbers readily available but recalled that there was many fiscal notes associated with SB 74 [a Medicaid reform bill passed in 2016] that were enabled because of Medicaid expansion.

Senator von Imhof referenced the 19 percent reduction to the 'Medicaid and Other Health Formula' category as listed on slide 5 and asked how much funding had been replaced by federal funds. She referred to Ms. Pitney's comment about discussion of one-time revenue sources. After two years of Medicaid expansion, she wanted to know what costs paid by the federal government, versus any additional costs the state was responsible for. She listed eligibility processing and other administrative duties as possible areas of cost.

Ms. Pitney stated thought that Senator von Imhof's questions were in-depth enough to warrant additional discussion time. She estimated that the amount of money in Medicaid over the past three years had increased by approximately \$300 million to \$400 million. She reminded

that healthcare was the only sector of the Alaska economy that was growing, because of the additional federal investment in Medicaid. She stated that the state level of Medicaid funding had gone down due to additional federal funding. She reiterated that it was possible to delve deeper into the issue at a later time, when she would have more specific figures.

10:20:45 AM

Co-Chair MacKinnon wondered if the numbers reflected on slide 5 (under reductions in Medicaid and other) included the supplemental items that were secondary to the budget. She wondered if subsequent slides would address anticipated increases. She believed some of the slides were highlighted to note that the supplemental items were not included.

Ms. Pitney stated that the supplemental budget was not included in the FY 18 figures on the slide.

Co-Chair MacKinnon referred to the 'Debt, Retirement, Credits, etc' category on the slide, which showed a 52 percent reduction. She asked for more detail and suggested that the committee needed more discussion on the category and reduction.

Ms. Pitney stated that the category was different from the comparison of FY 13 to FY 18, versus the comparison of FY 15 to FY 18. Slide 5 showed the majority of the reduction from FY 15 to FY 18 was a result of oil and gas tax credits. She stated that the retirement number was about the same. She noted that there was no retirement contribution in the 982.7 million listed for FY 15 on slide 5, because it was the same year a roughly \$3 billion deposit went to the two retirement systems. The \$982.7 million was largely made up of oil and gas tax credits. She informed that the number from FY 13 was largely the same but was largely made up of the retirement contribution of \$750 million. Because of the deposit in FY 15, the state was able to reduce its on-behalf payments for the retirement liability. She stated that the reduction depended upon the year that was being considered.

10:24:16 AM

Co-Chair MacKinnon appreciated the information. She referred to consistency in reporting and understood the

administration's choice of comparing years it was present to measure budget changes with. She understood the representation of the \$3 billion contribution. She referenced a bill that suspended the school debt reimbursement program, which would sunset.

Co-Chair MacKinnon asked Ms. Pitney to provide a breakdown of the category of 'Education & University.' She noted that a future slide referenced inflation for education. She wanted to see specific figures for the Court system, and other details separated out.

Co-Chair MacKinnon warned that she would be asking for an acknowledgement from the administration that the state owed money for oil and gas tax credits. She referred to businesses going bankrupt, with unpaid credits as a contributing factor. She referenced companies approaching legislators requesting a plan as to how the credits would be paid to those that had risked capital. She asked if Ms. Pitney believed the state owed the tax credits and that the state was obligated to pay the tax credits.

[10:28:22 AM](#)

Ms. Pitney believed there was an obligation to pay tax credits, although thought there was no time limit or cost to the time other than that to the companies.

Co-Chair MacKinnon referred to a statutory formula that the administration had been relying on and what some felt were minimum payments.

Ms. Pitney answered in the affirmative.

Senator Stevens appreciated Co-Chair MacKinnon's request for a breakdown of the education budget overview. He asked for a rough approximation of the reductions to K-12 education and the University.

Ms. Pitney estimated there had been a 6 percent reduction to K-12 education and an upwards of 12 percent to the University. She offered to provide more precise numbers at a later time. She stated that in FY 15 there had been an amount of one-time funding for education; that was available for FY 16, FY 17, and FY 18. The reduction to education was an elimination of the one-time funding. She summarized that the FY 16 and FY 17 one-time funding

intended to bridge to an increase in the Base Student Allocation (BSA) had been eliminated and accounted for the reduction.

Senator Micciche thought it was important to clarify that there had been increases to the BSA after FY 15. He noted that FY 18 was the first year without an increase in several years.

[10:31:09 AM](#)

Ms. Pitney looked at slide 6, "Spending: State Budget Overview," which showed a data table entitled 'Unrestricted and Designated Spending Trend.' The reason the administration had provided the particular slide presentation was to provide a picture of UGF and DGF. She explained that DGF was a category of funding that had a statutory designation. She explained that some of the funds were service fees for a particular item. She used the example of University tuition and fees, wherein students paid for a particular course, degree program, or dorm room.

Ms. Pitney continued discussing slide 6 and noted that funds from the motor fuels tax (in FY 18) were also considered DGF, because the statute pointed the money from the tax to transportation purposes. She noted that the motor fuels tax funds were not earned for a particular item, like a ferry receipt. There were two different kinds of monies in the DGF. Other types of DGF were community assistance (formerly known as community revenue sharing), which was a GF payment into a fund designated for communities. She listed the Power Cost Equalization (PCE) Fund as an example of a similar fund designated for a particular purpose. Even counting all the DGF, the total operating budget since FY 15 was down 16 percent. Compared to FY 13, it was down over 20 percent. The total budget was down 23 percent from FY 15 to FY 18 when DGF and UGF were included.

Senator Micciche thought Ms. Pitney had been showing numbers in a specific way for the past several years. He thought that the grouping of funds demonstrated some value for the administration but not for the committee. He thought it was important to have a standardized format to presenting the budget numbers. He asked Ms. Pitney to provide budget information to the committee using the standard style.

Ms. Pitney agreed to provide the information.

[10:35:53 AM](#)

Vice-Chair Bishop thought Senator Micciche had requested the alternatively formatted budget information for the benefit of the public.

Co-Chair MacKinnon asked if it was fair to extrapolate that the spending total number would remain the same, but an alternate format would provide greater detail and transparency in understanding each operating line.

Ms. Pitney answered in the affirmative.

Senator Micciche suggested that in order to understand the proposed spending for FY 18, which some members did not necessarily support, it was important to understand successful spending reductions and resistance to spending increases.

[10:37:39 AM](#)

Ms. Pitney spoke to slide 7, "Budget Gap: State Budget Overview - Known Increases FY2018 to FY2018." The slide provided a list of increases the administration had known the state would face between the FY 18 budget and the FY 19 budget. She explained that the table on the slide compared the Office of Management and Budget's (OMB) list with the Legislative Finance Division's (LFD) list, and there were a couple of differences. She drew attention to the bottom line, where OMB assumed a \$360 million increase, and where LFD assumed a \$347 million increase. In addition to the bottom line increase, there was a capital budget increase as well as an offset for fiscal notes, one-time items and sunset programs that brought the OMB total budget change number to \$388.3 million.

Ms. Pitney referred to the top of slide 7, noting that the previous year the administration had known the Medicaid budget would be about \$32 million below what was expected in FY 18. There was also a reduction in the Senate and in the final legislation. She shared that Medicaid enrollment had gone up much faster than was anticipated, through traditional enrollment as well as expansion. Based on FY

17, the administration expected \$75 million for FY 18. She reiterated that she was speaking to known increases.

Ms. Pitney pointed out an increase in the Alaska Marine Highway System (AMHS), which had a deposit in FY 17 (into the Marine Highway Fund) and then a draw in FY 18 because of the Medicaid increase. She referenced an explanatory memo that went out in the previous two months. She explained that because of the cap on the CBR, the deposit for FY 18 was not made. There was a minimum \$40 million shortfall. There had been a one-time item in addition to be restored. In total, just to get even with the current fiscal year's level, it would require a \$44 million increase in UGF for AMHS. She thought the configuration was difficult to explain, but summarized that it concerned the CBR cap, and supplementals hitting the cap the previous year.

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Ms. Pitney continued to discuss the table on slide 7, pointing out a \$15 million placeholder for Fire Suppression, which LFD had put in the budget documents, but OMB had not. She noted that there had not been a huge fire year the previous year, and there was funding in the Fire Suppression account. She thought \$15 million was a traditional amount that was deposited for wildfire funding. She stated that OMB had also not put in a figure for Salary and Benefits, and there were very few contracts with salary increases. She guessed the amount would be in the range of \$7 million. She relayed that LFD had communicated there would be an increase in spending for employer contribution for health. She had not confirmed that there would be an increase, and the administration was trying to manage the program and keep the employer payment the same. She reiterated that the slide reflected known increases.

Ms. Pitney addressed an increase to the Department of Corrections (DOC) inmate health. The previous year there had been a \$10 million supplemental request for inmate health, which was not included in the FY 18 base allocation. She referred to criminal justice reform legislation that had passed the previous session. She pointed out that the prison population had not decreased to the level that was predicted, so there would be additional increases for the correction population that were not built into the number on the slide.

Ms. Pitney highlighted the \$4.7 million increase in funding for Mt. Edgecumbe listed by OMB. She referenced the Public School Trust Fund.

10:44:12 AM

Senator von Imhof referred to DOC Commissioner Dean Williams' testimony from the previous week. The commissioner had discussed the closure of a prison in Palmer, and she understood there was 400 vacant prison beds. She thought there was a backlog in pre-trial services, but the commissioner felt the individuals would be addressed in January 2018 when the program kicked in. She did not recall that the commissioner had stated that there was a significant increase in inmates.

Ms. Pitney stated that the criminal justice reform bill had estimated a decrease in the prison population, but the decrease not been commensurate with what had been predicted and budgeted for. She relayed that the administration had taken a significant amount of money out of the correctional system in anticipation of fewer inmates. The reduction had not been what was anticipated.

Senator von Imhof understood that one of the supporting arguments for Medicaid expansion was that the central funds would be covering inmates.

Ms. Pitney stated that Medicaid expansion covered inmates that were in a hospital setting for 24 hours or more. There was about \$7.2 million of inmate health that was covered by Medicaid expansion. She clarified that the \$10 million was for healthcare that was provided within the walls of the prison. She informed that Medicaid did not cover healthcare that was within the walls of the prison.

Senator von Imhof asked if Ms. Pitney was referring to Medicaid-eligible recipients.

Ms. Pitney stated that Medicaid did not cover the healthcare costs within the prison; rather, it only covered inmates that had to go to a hospital for 24 hours or more. Prior to Medicaid expansion, the state had covered the total amount.

Senator von Imhof understood the explanation but did not think that the level of detail was not explained when Medicaid expansion was being considered. She recalled sitting in meetings in which she heard that inmate healthcare would be covered under the expansion.

[10:47:48 AM](#)

Ms. Pitney continued reviewing slide 7, noting that the next two items were not increases, but there had been anticipation of an increase. The administration had received new debt service information from the state's debt manager. At the end of the previous session, there had been an \$8 increase to the Community Assistance Program, so there was a resultant decrease. Oil and gas tax credits would increase \$118 million based on the statutory minimums. She referenced the Public Education Fund, and stated that there was one-time money of \$17 million used from a reappropriation, which would result in a known increase. The actuarial increase to State assistance was increased by \$108 million.

Co-Chair Hoffman referred to the Community Assistance Program and recalled that the law stated the legislature would put in \$30 million per year to keep a fund balance of \$90 million so that communities could anticipate where the dollars would be spent. He had received information from the administration that indicated it would treat the \$30 million as an add-back similar to how AMHS was being treated. He asked for clarification on the matter of whether the administration had the same view on the program, and if it planned on decreasing the Community Assistance Program in the future.

Ms. Pitney referred to the \$30 million deposit in the Community Assistance Fund the previous year, and stated the amount could be put in as a supplemental item in the coming year if there was revenue to cover it. She asserted that the \$8 million item listed under Community Assistance on the slide was somewhat different. The funds went to Community Assistance as a direct appropriation rather than into the fund. She elaborated that the slide did not reflect the intent of the administration. She reminded that the Senate's revision of the PCE Fund also provided the ability to fund Community Assistance through the same mechanism.

Co-Chair Hoffman thought it was more a question of whether the state could afford the program or not. He did not see how the administration could differentiate between the Community Assistance Program, saying it was not affordable, when it affected virtually every person in the state; while saying the state could afford the AMHS, which served 20 percent of the state population.

[10:52:18 AM](#)

Co-Chair MacKinnon recalled that the House had added \$7 million to Community Revenue Sharing as a direct appropriation in the capital budget and wondered if the overview was reflective of the funds not being added back in a second year. She asked Ms. Pitney to explain the funding history.

Ms. Pitney stated that as part of a budget compromise, there had been \$8 million in budgeting outside of the normal process for Community Revenue Assistance.

Co-Chair MacKinnon stated that she had worked with Co-Chair Hoffman to ensure that the program was funded at a lower level. The change was 50 percent lower funding and a name change from Community Revenue Sharing to Community Revenue Assistance. She added that the program had been back-funded with from Power Cost Equalization funds. She thought there would eventually be a cost-savings. She supported fulfilling the obligation.

Co-Chair MacKinnon continued her remarks on the Community Revenue Sharing item. She hoped that the governor's budget for the current year would show funding for the program. She recalled that the previous year the full amount had to be back-filled. She wanted to ensure that there was a \$30 million contribution in order to keep the \$60 million fund whole. She pointed out that specifically smaller communities suffered more adverse effects than larger communities that did receive a higher portion of the fund and had other ways to manage. She mentioned a tax cap in Anchorage, and relayed Anchorage assembly members were concerned with the lack of money coming from the state.

Ms. Pitney appreciated understanding the position of the committee.

Co-Chair Hoffman thought it seemed that the administration made one statement the previous year and was reversing that statement; but not with AMHS, which benefitted a very small portion of the state compared with the Community Assistance Program. He was befuddled at the funding differentiation between the two programs.

Senator Micciche reiterated that he wanted more detail pertaining to the categories of Debt Service; State Assistance to Retirement; and Fiscal notes, Sunsets, and OTIs as listed on slide 7. He asked Ms. Pitney for more detail on the expectations for all three of the categories.

Ms. Pitney agreed to provide five-year forecasts on each of the areas requested. She stated she could also explain highlights if necessary.

Senator Micciche stated that he wanted more detail on the line items at a later time.

Co-Chair MacKinnon relayed that the committee had asked for more detail to provide greater transparency for the line items on slide 7. She stated that she would make the information available to the public as soon as it was received.

[10:57:43 AM](#)

Ms. Pitney reviewed slide 8, "Budget Gap: State Budget Overview":

Known issues: Base scenario ~\$600-800 million/year  
Assumptions:

- Department of Revenue oil price and production forecast: Fall 2017
- Agency cost increases are maintained at or below inflation
- No federal cost shifts
- K-12 school increases maintained at inflation only - no student growth

Ms. Pitney addressed the table on slide 8, entitled 'Base Scenario Calculation (\$millions).' She stated that the slide did not include policy decisions, new items, or reductions. Rather the slide reflected current status including fiscal notes and sunsets, which had been built into the future. She pointed out that the budget

(maintaining flat service levels) went up from the \$4.3 billion budget to \$4.7 billion. She detailed that inflation of 2.25 percent for agency operating, known increases (based on the revenue forecast for oil and gas tax credits), known decreases of debt, and increases in retirement were included in the calculation; after which the budget would go from \$4.7 billion in FY 19, to \$4.9 billion in FY 20, to almost \$5 billion in FY 21. She qualified that the numbers were for government only and did not include the PFD.

Ms. Pitney continued discussing the table on slide 8, which projected a deficit that started at \$2.7 billion and grew to \$2.8 billion in the following 2 years. The deficit in the current fiscal year was roughly \$2.5 billion. She discussed the budget gap predicated on the Permanent Fund plan (which existed in SB 26 as passed by the Senate), at roughly \$600 million. She considered the Permanent Fund Plan as passed by the House (and included a sustainable draw from the ERA), there was a gap of \$900 million in the short-term and \$800 million in the long-term.

Ms. Pitney qualified that the figures on the slide had an assumption of no federal cost shifts, and assumed funding schools with no adjustments. She discussed the range of the budget gap as calculated through the House and Senate proposals. She stated that there was a number of items that could change the range.

[11:01:55 AM](#)

Ms. Pitney discussed slide 9, "Budget Gap: State Budget Overview":

A number of items could increase the gap:

- Compromise dividend ~\$80.0-\$100.0 million (cost)
- Federal level health care changes ~\$100.0+ million (cost)
- Supplemental budget ~100.0+ million (cost)
- Health care cost containment efforts (necessary to meet forecast)
- Criminal justice initiatives (cost)
- Major disaster spending (cost)
- Market correction affecting permanent fund earnings
- Overdrawing the fund today, increases the gap in the future:

Assuming \$500.0 million/year in excess draw:

- Over 5 years: this will cost \$153 million in annual revenue forever.
- Over 10 years: this will cost \$368.5 million in annual revenue forever.

Ms. Pitney informed that both LFD and OMB were doing an initial analysis on healthcare costs. If healthcare grew at 3.5 percent (analysis showed a 5.25 increase over the past 10 years), there would be a \$100 million difference in the budget in five years. The forecast budgeted a 2.25 percent increase. She emphasized that in order to not have healthcare taking a larger share of the budget, containment efforts needed to be put in place.

[11:03:40 AM](#)

Senator Micciche thought that all the assumptions on the slide 8 and slide 9 addressed an increase to the budget gap. He wondered at the absence of items that might reduce the fiscal gap; such as production, price, or efficiencies in government. He considered that the presentation was showing that the administration thought the status quo was correct. He discussed reductions. He thought there was good news in the state and considered that there should be a balance of considering positive and negative effects on the budget.

Ms. Pitney stated that a subsequent slide would address healthcare cost containment, which was a huge cost driver. She detailed that an initial look at the budget showed that about \$1.2 billion came through the state budget for healthcare. She discussed the combined healthcare costs, and rising cost pressure of healthcare over time. She thought the state could avoid \$200 million in cost if healthcare growth could be contained at 2.25 percent. She stated that other groups had considered that a 3.5 percent growth rate would be a boon.

Ms. Pitney continued discussing increases to the cost of healthcare. She emphasized that the state would need major reform initiatives to limit the healthcare growth rate to 2.25 percent. She mentioned the controversy in healthcare reform. She advised that the 5.25 historical growth rate was not built into the projections. She discussed administrative efficiencies such as shared services, and IT and facilities maintenance consolidations as a way to cut

costs. She thought that there had already been dramatic cuts. She reminded that there was still \$360 million in known increases to overcome. She stressed the need for administrative efficiencies.

[11:09:48 AM](#)

Senator Micciche concurred that the reality of budget cuts was difficult. He asked if the administration had gone through the exercise of considering right-sizing services to the size of available revenue. He asked if Ms. Pitney had an assumption of what kind of government the state could afford, and if she had engaged in an exercise to determine the size of government the state could afford. He felt the legislature's job was to challenge the administration to find places to reduce.

Ms. Pitney answered in the affirmative and stated the administration had done the exercise for three years. She drew attention to slide 4 and emphasized that half of the state funding of the UGF budget was payments sent out to communities, providers, oil companies, and individuals. She questioned where the burden would fall if items that the state could not afford were identified. She detailed that the administration had looked through every program, statutes that were assigned to programs; to question if it was a value to the state.

Ms. Pitney discussed the administration's process of considering the right size of government. She asserted that education was key to the future of the state.

[11:12:47 AM](#)

Vice-Chair Bishop looked at slide 9 and commented that there were different ways to comment on the budget. He asserted that the state was not locked into a certain amount of budget increase, and that the matter was a subject for debate.

Co-Chair Hoffman referred to the 'compromise dividend' listed on the slide. He referenced slide 8 and considered the Senate Permanent Fund plan versus the House Permanent Fund plan. He stated that the difference between the plans' deficits was \$250 million, but slide 9 listed the difference of the compromise dividend as \$80 million to

\$100 million. He asked Ms. Pitney if she could reconcile the differences.

Ms. Pitney stated that the \$100 million was based on the \$1100 PFD from the Senate plan.

Co-Chair Hoffman thought that the \$1250 dividend proposed in the House did not equate to \$225 million. He stated that the \$225 million difference in the Senate and House plan was higher than he had anticipated.

Ms. Pitney stated that the amount was the difference between a 25 percent draw and a 33 percent draw.

Co-Chair Hoffman asked what population number the administration had used when calculating slide 9. He thought Senator Micciche had used a state population number of 735,000.

Ms. Pitney informed that the administration had used 735,000 as a population number, and about 85 percent of the population applied for the PFD.

[11:15:40 AM](#)

Senator von Imhof discussed the private sector, and thought employees had good ideas as to where to find efficiencies. She wanted to visit each state department unannounced in order observe productivity and see what kind of activity was being measured. She noted that there were component detail reports for every department and budget item, but talking with individuals provided more information. She felt that talking to the Department of Revenue Commissioner could be helpful.

Department of Revenue Commissioner Sheldon Fisher was in the gallery and indicated that Senator von Imhof would be welcome to visit the department.

Co-Chair MacKinnon noted that the conversation was stalling the advancement of the presentation. She agreed with Senator Micciche that a list of priority programs should be presented to the committee. She agreed that education was valuable and mentioned low performance results. She acknowledged that there was a disagreement about the numbers and felt that change needed to happen. She thought that there were statutorily mandated programs that could be

eliminated in an effort to curb spending. She mentioned the Alaska Performance Scholarship (APS), and escalating healthcare costs. She referenced public testimony on change to the APS. She reiterated that the committee valued education.

Co-Chair MacKinnon continued her remarks. She added that the state was offering services that it could no longer afford and directly mentioned the AMHS. She asked about the Atwood Building that the legislature was renting and wondered if consolidation had occurred.

Ms. Pitney replied that the state had been consolidated lease space over the previous three years. She stated that higher leases were being reconsidered for lower-cost leases or state-owned properties. She recalled that there had been a \$4 million decrease in lease space cost between FY 17 and 18.

Co-Chair MacKinnon asked to see examples of lower cost lease spaces for the Atwood building in particular. She stated that the administration had interjected itself into a conversation about lease space for the legislature.

[11:22:16 AM](#)

Co-Chair MacKinnon commented that the pension appropriation of \$3 billion had been used for healthcare rather than to reduce unfunded pension liability. She wondered how the change would affect the long-term funding ratio.

SHELDON FISHER, COMMISSIONER, DEPARTMENT OF REVENUE, said that he would need to research the matter. He had previously been the commissioner for the Department of Administration (DOA), which included the management of the Division of Retirement and Benefits. He said that the Alaska Retirement Management (ARM) Board had allocated the money had been according to the recommendation of the actuarials, and that he had seen dramatic improvement in the funding level of healthcare over the past few years. He said that as there had been improvements and reductions in the actuary assumption, healthcare costs had climbed up. He thought there was a future opportunity to allocate more money toward the pension side, which was an ongoing conversation within the department.

[11:25:47 AM](#)

Co-Chair MacKinnon believed that when the legislature made the appropriation, it was made to the retirement system rather than to healthcare. She thought that if the health side of the funding was at 95 percent, and the wage side was lower; then the ARM board was able to make choices for improved healthcare for retirees. She thought if the legislature acted to make the funding side for the retirement system whole, there was different implications. She discussed the ARM board's flexibility to change benefits and recalled that the legislative intent had been to fund the pension side rather than health. She stated that payments to retirement were affecting state in different ways.

Commissioner Fisher clarified that the ARM board did not weigh in on benefits provided to retirees, which were defined in statute. He stated that the \$3 billion came in immediately prior to his role at DOA. He had not focused on the issue of the legislative intent for the deposit to go the wage side rather than the benefit side. He stated that he would get back to Co-Chair MacKinnon's office with more information on the matter.

Co-Chair MacKinnon thought that the matter could be interpreted in different ways. She reiterated that she had understood the deposit was going toward the wage side. She reiterated that the court system had become involved in the question of healthcare and restrained the legislature's ability to do things. She had been to meetings with retired state workers and discussed healthcare benefits.

[11:30:46 AM](#)

Ms. Pitney went back to slide 9. She drew attention to the last item on the slide, "Overdrawing the fund today, increases the gap in the future." She thought it was important to understand that taking \$500 million per year in excess of a sustainable draw (as accepted by the House and Senate) for five years would cost \$153 million in annual revenue from the ERA forever. She thought a potential overdraw would diminish flexibility in the future.

Co-Chair MacKinnon thought it was an important component and suggested that reduction of the budget would provide the same opportunity to grow the fund. She reminded that

the governor had the power to veto. She thought that if the governor considered that the legislature was not adequately responding or drawing inappropriately from the ERA, then he could reduce the budget.

Ms. Pitney highlighted slide 10, "Budget Gap: State Budget Overview," which showed a data table entitled 'Budget Gap Under Various Assumptions.' The slide provided a view of the budget gap under different circumstances. She looked at range of estimated budget gaps from \$371 million up to \$900 million. She noted that the CBR was a tool.

Ms. Pitney turned to slide 11, "Budget Gap: State Budget Overview," which showed a bar graph that trended forward. The slide was based on the forecast and the revenue projections. She observed the deficit trend over time for various scenarios as outlined on the graph. She observed that under the 'Compromise with Revenue' plan, it was possible to get the deficit below \$200 million by 2025. Under the same compromise with a market crash (considering 2007 to 2015 actual returns) would bring up the deficit.

[11:36:33 AM](#)

Senator Micciche looked at the slide, which he thought also represented the status quo. He asked why there was not a representation of a significant market upside or other positive scenario. He thought there was potential for substantial improvement under all the outcomes represented. He thought it was important to represent the upside.

Ms. Pitney displayed slide 12, "Savings: State Budget Overview," which showed a line graph entitled 'FY2010-2018 State Revenue and Expenditure (Without Dividend).' The slide showed state revenues relative to the expenditure decline. The state had been in deficit since 2013 and had drawn \$14 billion from state savings. She argued that the Permanent Fund as a revenue stream over a savings account would be much less valuable to the future of the state.

Ms. Pitney looked at slide 13, "Savings: State Budget Overview:"

- The gap between revenue and spending has been funded primarily from the Constitutional Budget Reserve (CBR)  
-- Alaska's rainy day fund

- By the end of FY2018, we will have drawn over \$14.0 billion from savings
- The constitution requires that any borrowing from the CBR fund be repaid
- CBR spend and non-repayment provisions require a three-quarter vote

The slide showed a bar graph entitled 'Unrestricted General Fund Budget.' Ms. Pitney pointed out that the slide demonstrated how the state had spent down the CBR and the SBR over time. The green represented how much of the total budget in a given year was taken from savings. She observed that 2016 was by far the highest proportion of spending from savings, although even with reductions the following years also showed huge spending from savings. She thought the slide demonstrated the structural deficit.

Co-Chair MacKinnon asked about the \$14 billion drawn from savings as listed on the slide and asked if the amount included the \$3 billion that was invested in the retirement system.

Ms. Pitney answered in the affirmative.

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Ms. Pitney viewed slide 14, "Savings: State Budget Overview,":

- Alaska has the most volatile revenue of any state
- Any plan that leaves a fiscal gap depletes the state's reserves
- Maintaining sufficient savings is prudent to hedge against low oil prices, stock market volatility or other unforeseen events

The slide also showed a bar graph entitled 'State of Alaska Savings Balance (SBR & CBR),' which showed the depletion of state savings.

Ms. Pitney observed that the significant drop in savings from FY 14 to FY 15 was due to the deposit to retirement. She reminded that the state had the CBR and the Statutory Budget Reserve (SBR) because Alaska was the state with the most volatile revenue. The standard deviation of change in the state's revenue (on the national scale) was 34.4 percent and six times the national average; while the next

closest state was Wyoming or North Dakota, with 11 percent volatility. When another state looked at a budget crisis, it considered a 1 percent to 3 percent decrease in revenue projections; versus an 80 percent reduction in Alaska's revenue over the time period examined.

Senator von Imhof referenced the third bullet point on the slide and agreed that it was important to keep saving. She considered subsequent slides that addressed the governor's wage tax proposal and pondered that the proposal would take cash from working Alaskan's so that the state could protect its own cash.

Ms. Pitney would not say that she was referring to the state's "own cash," but it was Alaskan's revenue to protect operations going forward. She suggested that if there was a market crash over time, funds preserved in a savings account could be used to manage volatility.

Senator von Imhof relayed that the committee would be hearing from Alaska Permanent Fund Corporation (APFC) Director Angela Rodell the following day and would be asking questions about how to hedge against market crashes. She mentioned SB 26 [a bill related to using the Permanent Fund] in which the committee had added a provision to consider the average market value of five of the previous six years to help balance things out. She considered a historical look at the market and thought market crashes generally did not last more than two or three years. She did not think the state should budget for potential market crash when it had been safeguarded against it through the structure of SB 26.

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Co-Chair Hoffman referred to slide 14 and considered that the last column on the graph indicated there was no plan to draw from the SBR and the CBR. He referred back to slide 8 and observed that the projected deficit for FY 19 was \$2.73 billion. He considered that the governor planned on expanding the deficit by adding additional prosecutors and other items. He thought it was extremely difficult to fill the deficit, and he agreed that the CBR and SBR should not be used. He noted that the Senate still needed to negotiate with the House on SB 26, and there was a revenue measure proposed by the governor. He thought that even with the House number for the Senate's Permanent Fund plan, there

was still a gap of \$300 million. He assumed that the state would not be able to achieve one-third of the amount in cuts. He anticipated that burden would fall on the ERA.

Ms. Pitney stated that the administration's expectation, considering best practice and volatility (even when the ERA was incorporated), was that it was prudent to target a balance for the CBR. She thought it was reasonable to use the CBR as a bridge. The reason the state needed a \$2 billion balance in the CBR was that cash payments often necessitated early draws of up to \$1 billion. She thought there should be a balance in the CBR for unforeseen circumstances such as extremely low oil prices. She stated that was that there were often funds drawn for cash payments early in the year. If \$2 billion was left in the account, there would be returns to the state.

[11:47:34 AM](#)

Ms. Pitney showed slide 15, "Savings: State Budget Overview - Other Fund Balances," which showed a data table entitled 'Selected Fund Balances (\$millions).' She noted that the combination of all the other fund balances was approximately \$2.1 billion - all the funds had associated programs that would be damaged if the funds were used. She drew attention to the other fund balances on the slide, and qualified that the numbers listed were all projected fund balances at the end of FY 18.

Senator Micciche thought some of the funds were overcapitalized and wondered if Ms. Pitney had intended to use the word "damaged."

Ms. Pitney stated that there was more funding in cost equalization and the Higher Education Fund necessary to run the program. She stated that there was money that could be preserved to fulfill the original intent of the program.

Co-Chair Hoffman thought the PCE fund could be viewed as potentially overcapitalized because of the high rate of return that the state had enjoyed. He referenced legislation that proposed using the excess fund earnings to the greatest benefit. He thought there would be times that the fund was undercapitalized. He thought the legislature envisioned using additional (overcapitalized) funds for Community Revenue Sharing other energy projects.

Vice-Chair Bishop relayed that he had sat on a pension trust for 20 years and did not think a fund could be overcapitalized.

[11:50:59 AM](#)

Ms. Pitney looked at slide 16, "Revenue: State Budget Overview - Alaska Permanent Fund Earnings," which showed a line graph entitled 'Permanent Fund vs. General Fund Revenues.' The slide reflected that the earnings from the Permanent Fund were the state's largest revenue stream. The blue line showed the earnings and the red line showed normal General Fund (GF) revenue. She commented that the graph would predict the next 10 years looking very similar to FY 17.

Co-Chair MacKinnon asked about the assumed rate of return on the Permanent Fund.

Ms. Pitney shared that the graph on slide 16 was backward-looking from FY 13 to FY 17 and reflected actual returns and state revenue.

Ms. Pitney spoke to slide 17, "Revenue: State Budget Overview - Permanent Fund Earnings Over Draw Impact":

- Maintaining the CBR balance at \$2 billion minimum level is crucial but leaves little flexibility.
- An additional \$500.0 million annually taken from the ERA above the structured draw reduces the Permanent Fund balance by \$5 billion compared to a structured draw with additional revenues
- That \$5 billion left in the PF generates \$250.0 million annually - reducing future tax.

Ms. Pitney referenced the bar graph on slide 17. She thought that the structured draw from the Permanent Fund earnings (as presented in SB 26) was very important and preserved the value of the fund. She noted that the slide reflected an assumed 6.95 rate of return, but that APFC had dropped the expectation to 6.5 percent. She stated that the graph demonstrated the value of the fund, over a 10-year period. She discussed the difference in the value of the fund considering a structured draw versus a draw with an additional \$500 million taken from the ERA.

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Senator von Imhof appreciated seeing the chart on slide 17. She referred to the "turduckhen" maneuver, in which the House had passed an operating budget containing a Permanent Fund bill as well as the capital budget. She asserted that the Senate had been thoughtful and careful in deliberating SB 26. She had not seen a slide that reflected how an income tax could affect growth, productivity, employment and confidence in the state. She wished there was more acknowledgement and modelling of income tax proposals to have a fairer comparison of fiscal plan choices.

Senator Micciche thought the state had to do better on the CBR return, so there was not such a fiscal gap. He thought if the structured draw became a long-term plan and the state worked on rebuilding the CBR, it was important to get a better return for the savings account. He asked if Ms. Pitney had any statements pertaining to reducing the earnings between the ERA and the CBR in out years.

Ms. Pitney noted that there was only \$2.1 billion left in the CBR. She considered that if there was only a structured draw, and nothing else, the state would consume all of the CBR within five years and would not have an appropriate savings balance. She concluded that there was no way to get a higher return on the CBR when statute dictated that the funds stay in an investment option appropriate to near-term spending.

[11:57:55 AM](#)

Senator Micciche asked if the administration had a plan for a better return on the CBR balance once there was a gap between one year of spending and an amount needed for a safety margin.

Co-Chair MacKinnon thought the question might be better directed towards Commissioner Fisher.

Commissioner Fisher had not taken a hard look at the asset allocation of the CBR and how it should be managed. He thought it made sense to examine optimizing the asset allocation once the steady balance was known.

Senator Micciche reminded that the legislature had wanted a level of flexibility with the CBR but had a pretty good idea of how much of it would be spent. He considered that

consequently, the state had lost hundreds of millions or more in potential earnings.

Co-Chair MacKinnon had spoken against confirmation of the previous DOR commissioner, who had put \$3 billion on the market and sold it in a very short time period. She relayed that she was told that state statute dictated that any funds needed within five years had to be monetized, which created a lower rate of return. She had read media reports about the legislature's inability to make a decision regarding the draw. She questioned why the APFC board would have to sell off or keep funds. She referred to the House inserting the capital budget into the operating budget and taking money from the ERA. She asked why the APFC board would change its management style for liquidity if there was a bridge in the CBR. She thought media had blamed the legislature.

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Commissioner Fisher did not argue with Co-Chair MacKinnon's characterization. He thought that there was a sense that the legislature had been looking to the ERA as a source of funding; and rather than disposing of assets in an accelerated fashion, it made more sense to liquidate assets as opportunities were presented. He did not want to try to lay blame on any organization. He thought all shared the view that if the state knew the rules, it allowed all parties to operate in a more efficient way. He referenced conversations with businesses about uncertainty in the fiscal situation preventing investment in the state. He thought if the uncertainty gap could be reduced, more optimal decisions could be made managing state assets.

Co-Chair MacKinnon appreciated the commissioner's response. She reminded that the commissioner was on the board of the Permanent Fund. She thought increased uncertainty was causing uncertainty in investment opportunity in the private sector. She hoped that if the CBR was used as a bridge, the APFC board would understand there was a backstop so that there could be good decisions made with Permanent Fund assets.

Co-Chair MacKinnon referenced a House proposal to withdraw \$5 billion, at which time the Senate leadership had responded forcefully. She referred to a press conference on

the matter. She believed the legislature had been responsive to the issue.

Senator Micciche stated that the reason the Senate had not supported the House fiscal plan was because it had felt it was too much a draw on the ERA and because of the loss of earnings. He was surprised, considering the amount of the Permanent Fund that was somewhat liquid. He thought the Senate was stepping lightly when it came to use of the ERA and wanted only positive effects on the fund.

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Co-Chair MacKinnon commented that when the state went through a government shut-down, there had been a conversation on the issue of an APFC shutdown. She wondered if there was something that the legislature could do to ensure that the investment managers got paid in the event of a government shutdown. She thought most Alaskans would understand the importance of making sure that APFC managers would be paid. She recalled that the Department of Law (LAW) had struggled with the ramifications of a government shut-down. She hoped there would be a better plan in place in the future.

Commissioner Fisher recalled an active conversation with LAW about the safety of the Permanent Fund. He thought the department had opined that the governor could continue life, health and safety functions notwithstanding the absence of a budget. He thought that the department had struggled with the idea that money management fell into the same category. He was hopeful that the issues would be addressed and the topic of a shut-down would no longer have to be addressed.

Co-Chair MacKinnon thought the matter was a good topic for the following day when the director of the APFC would be present. She discussed the importance of wise resource management, and the need to move past uncertainty.

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Ms. Pitney reviewed slide 18, "Revenue: State Budget Overview - Market Correction Impact," which showed a bar graph that illustrated the market experience from FY 07 to FY 15. The slide demonstrated a \$600 million decline in the structured draw of the Permanent Fund if there was a market

experience such as between 2007 and 2015. She thought the slide emphasized the need for a CBR balance that was at the target level and stressed the need of being cognizant of fund levels so as to not overdraw the ERA.

Ms. Pitney discussed slide 19, "Revenue: State Budget Overview - Market Correction Impact":

Ten Year Forecasts:  
Average Return and Market Correction

- Scenario 1. Compromise Version SB26 combined with various other actions - 6.95% annual returns
- Scenario 2. Compromise Version SB26 combined with various other actions -FY07-FY15 market returns

\*see two-page spreadsheet

Ms. Pitney noted that the slide had an accompanying document "Budget Forecast Scenario 1 and 2," which contained two data tables (copy on file). She discussed the table entitled 'Scenario 1 - Compromise Version SB26 combined with various other actions (\$millions) - 6.95% annual returns.' She drew attention to the 'Planned Permanent Fund Value (EOY)' on the Scenario 1 document. She explained that if there was a 6.95 percent return annually along with a structured draw, there would be a Permanent Fund Value of \$80 billion in 2027. She looked at the 'Planned Draw' on the document, which showed the draw growing to \$3.6 billion under the assumptions of Scenario 1.

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Ms. Pitney continued discussing Scenario 1 of the budget forecast document, and considered the forecasted draw combined with GF revenue, which showed a remaining deficit of \$727 million under the compromise plan. She commented on additional royalties due to changes from SB 26. Scenario 1 also assumed a motor fuels tax. She informed that if the remaining deficit was drawn from the ERA, instead of the Permanent Fund being valued at \$80 billion, the future value of the fund would be \$74.8 billion.

Ms. Pitney measured the effects of implementation of SB 4001 as shown on Scenario 1 of the budget forecast. She discussed changes to the balance of the Permanent Fund. She

thought that the scenario pointed out that the ERA balance was healthy due to no volatility in the annual return under the assumption. The scenario showed a dividend starting at \$1100 and growing to almost \$1400.

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Ms. Pitney looked at 'Scenario 2 - Compromise Version SB26 combined with various other actions (\$millions) (Actual FY07-15 returns)' on page 2 of the forecast scenario document, which co. She drew attention to the middle of the page, to the 'ERA Balance' line. She noted that under an actual returns assumption, from 2021 to 2024 there was not sufficient funding in the ERA. She contrasted the line with the ERA assuming a broad-based tax, which showed the ERA with a low balance in only 2024 and 2025.

Ms. Pitney continued to speak to Scenario 2. She asserted that with a targeted \$2 billion CBR, the state could manage through a shortfall. She considered that without a broad-based tax on top of the Motor Fuels Tax proposal, the impact of a market reduction could be significant. She reiterated that a broad-based revenue source made a huge difference over the time of market volatility, and also helped avoid an unstructured draw in the near term. She mentioned the significant effects of an unstructured draw on the revenue from the ERA.

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Co-Chair Hoffman thought the document had an assumption of \$1000 PFDs and suggested that the matter was not yet resolved. He continued that the assumed rate of return was possibly going to be adjusted. He thought that the document had an optimistic viewpoint. He wanted to see an array of scenarios with rates of return and PFD amounts. He thought it would be helpful to members of the committee, legislature, and the general public.

Ms. Pitney agreed to provide the information.

Senator von Imhof discussed focusing on expenses in addition to revenues. She referenced general expense increases and asserted that education and healthcare would grow at a higher rate. She discussed potential reductions such as healthcare reform as a way to further reduce the budget deficit. She wondered if a budget reduction

component would be a good idea to consider within the scenarios Co-Chair Hoffman had requested.

Co-Chair MacKinnon stated that adding Senator von Imhof's idea to the request would be helpful.

Senator Micciche did not support the use of FY 07 through FY 15 actual returns as a market return assumption in the model. He thought it was more realistic to look at a trend of longer than eight years. He suggested that a 6.95 percent rate of return had a layer of conservatism built in. He emphasized the importance of long-term trends and thought there should be an adequate level of conservatism used on the model.

Commissioner Fisher stated he would engage in conversation with Director Rodell the following day. He relayed that the change from an assumed 6.95 percent to a 6.5 percent rate of return had been recommended by a consultant (Callan and Associates) and was consistent with advice that was being given worldwide as well as what the department was hearing from many other funds. He thought the topic was important, so that everyone felt comfortable with the assumptions that underlie the models.

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Co-Chair MacKinnon stated that when the committee discussed SB 26 (which proposed a sustainable draw from the ERA) it considered a 5.25 percent rate of return, which had a trailing three-year trend with an actual rate of return that was even lower.

Co-Chair MacKinnon referred to questions from the previous days meeting regarding indirect expenses and changes to foregone revenue. She discussed evaluation of Cook Inlet tax credits, and investment on the North Slope. She thought it was prudent to look at whether the state was getting the return it wanted from the foregone revenue before considering a tax on Alaskans.

Co-Chair MacKinnon recalled that Ms. Pitney had alluded to a reinterpretation of the motor fuels tax. She wanted to understand why the administration considered the funds dedicated and asked for more clarity on the matter. She asked about the administration's proposed decrease of UGF

and increase of DGF, and the use of the revenue stream. She asked for a response from the administration in writing.

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Ms. Pitney stated that there was rationale to looking at general revenues differently than specific revenues. She asserted that a motor fuels tax was considered designated with a statute as opposed to dedicated. She stated that the funds were reclassified due to a decision by LFD. She believed that general tax revenue items should be considered differently than items that came in as fee-for-service revenue. She used the examples of a ferry ticket, a university class, or a vehicle registration. She thought there should be a discussion about the merits of items that were GF-based or tax-based, such as the insurance fund or the motor fuels tax.

Co-Chair MacKinnon stated the committee was happy to have the conversation. She recalled that previous finance committees had considered clarifying the process of moving funds. She reiterated that clarity in accounting was a best practice. She asked about the recommendation by LFD.

Ms. Pitney relayed that there was a statute that was in place that designated the motor fuels tax to transportation funding, which was brought to attention by LFD.

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Ms. Pitney highlighted slide 20, "Revenue: State Budget Overview - Tax Proposal":

- 1.5% tax on wages and self-employment income
  - Does not tax investments, retirement income, rental income, etc.
- Tax is capped at \$2,200 or twice the PFD, whichever is greater
  - Cap begins at \$147,000/year
- Targeted to generate \$320.0 million
- Without a cap, it would only generate \$10.0 million more
- Including the PFD, most Alaskans will still receive a net payment from the state
- Out-of-state residents will pay the highest rate because they do not receive PFDs

Ms. Pitney stated that the slide was a recap of the tax proposal that would produce \$320 million once it had matured. She noted that the tax would gather 15 percent of its revenue from non-residents. She drew attention to the table on the slide, which showed that under \$50,000 there was no net tax payment. The maximum net tax for a resident was \$1,000. She considered the tax proposal to be modest, broad-based, and would have advantages with earnings growth. She noted that there was a complete disconnect between economic growth and state revenue, excepting oil business. The tax provided a connection between the state economy and state services but was still modest.

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Ms. Pitney turned to slide 21, "Revenue: State Budget Overview - Tax Proposal." She emphasized that the proposed tax would pick up a very small portion of the overall burden of government. She noted that with such a broad-based tax, Alaska still remained the lowest taxed state in the nation. She pointed out that the items below the black bar on the graph were largely alcohol tax, tobacco tax, and motor fuels tax. She reiterated that the broad-based connection to the economy was an important component for the future.

Senator von Imhof referred to slide 20 and asked if the proposal considered self-taxes by individual municipalities around the state.

Ms. Pitney stated that the proposal considered a state-level tax and did not include city taxes.

Co-Chair MacKinnon thanked the testifiers. She commented that the testimony would help the committee understand the budgeting process as it moved forward, as well as the administration's planning. She asserted that some members believed there was other options on the table aside from income tax or a payroll tax, and the governor had the power to review budgets. She relayed that she had received a message questioning the administration's prioritization of programs, which was a statutory requirement.

Co-Chair MacKinnon asked about the budgeting process with the administration. She referenced the proposed draw from the ERA and thought the entire committee wondered if the administration had prioritized state programs so that the

legislature could decide to change statute and stop programs.

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Ms. Pitney stated that the administration had a prioritization matrix, and considered whether programs had constitutional, statutory, or discretionary considerations. She stated that many program factors were reviewed during the subcommittee process the previous year. She looked forward to engaging in the process again. She thought familiarity with every budget item was becoming more prevalent after the previous four years.

Co-Chair MacKinnon referred to a question she had asked two years previously and felt she had not received an answer. She discussed services provided in different geographic regions, and the question of how many people were receiving the services in each area. She used food stamps as an example and wondered how many people were receiving public assistance. She wanted to quantify how much the state was contributing to families as opposed to what was received from the federal government. She discussed the connection between federal taxes and federal services. She mentioned income taxes versus taking a portion of the PFD; and questioned the amount of services being consumed. She looked forward to more detailed information on the matter. She did not think the legislature had a full picture of what the state was spending on services.

Co-Chair MacKinnon discussed the schedule for the rest of the week. She referenced the motor fuels tax and the alcohol tax. She emphasized the need for transparency.

Co-Chair MacKinnon discussed the idea of various fiscal proposals.

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ADJOURNMENT

[12:46:37 PM](#)

The meeting was adjourned at 12:46 p.m.