SENATE FINANCE COMMITTEE
FOURTH SPECIAL SESSION
November 9, 2017
9:05 a.m.

9:05:39 AM

CALL TO ORDER

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

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

David Teal, Director, Legislative Finance Division; Senator Bert Stedman; Senator Shelly Hughes;

SUMMARY

PRESENTATION: FY 19 BUDGET PLANNING

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9:06:01 AM

Co-Chair MacKinnon directed the public to find relevant meeting documents online.

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, introduced himself and remarked that the public may wonder why the committee was considering the fiscal model again when a bill was not before the committee. He explained that the model was a tool designed to help evaluate fiscal

paths, and the legislature was considering the governor's proposed employment tax. The model would show how much tax (if any) was necessary to meet the state's fiscal goals.

Mr. Teal addressed the presentation, "Alaska's Fiscal Future" (copy on file).

Mr. Teal showed slide 2, "What has changed since last year?":

1. DOR updated the revenue forecast,
2. OMB updated its 10-year expenditure plan, and
3. The Permanent Fund revised its earnings projections.

Mr. Teal commented that much had changed since the end of the previous legislative session. He remarked that revenue, expenditures and earnings were three major drivers in the Legislative Finance Division's (LFD) fiscal model, which would affect the projections. He wanted to discuss what to look for in any model scenario in general. He pondered that there was a way of asking what conditions made a particular fiscal plan a success.

9:08:39 AM

Mr. Teal reviewed slide 3, "Defining Success":

1. Deficits fade away before the projection period ends
2. No unplanned draws from the ERA (the CBR is not depleted)
3. PF balance keeps pace with inflation
4. PFDs of at least $1,000

Mr. Teal emphasized that fiscal model goal-setting was individual, and individuals might not necessarily agree on goals. He thought that setting individual goals would help determine whether a plan worked, and more importantly how a plan could be modified to make it work better.

9:11:25 AM

Mr. Teal discussed slide 4, "Fiscal Model Output Comparing Revenue and Expenditures in FY18 and FY19 Versions," which showed a data table. He noted that slide reviewed the changes to revenue and expenditures that had occurred since the previous session. He stated that the revenue was from

Department of Revenue's (DOR) October 2017 forecast, and was generally slightly lower than the 4% decline scenario used the previous year. He thought there had been some confusion, and legislators as well as the press had concluded the fall forecast showed an increase in revenue. He noted that the DOR presentation showed increase in revenue; but nearly half of the gain was in FY 27, which was not in the projection period of the previous year's model.

Mr. Teal continued discussing slide 4 and pointed out that the FY 19 thru FY 26 revenue gain in DOR's slide was $529 million above the previous year's 4 percent decline scenario. He noted that the previous DOR spring forecast had excluded about $65 million annually from insurance premium taxes. The $65 million was included in the forecast for the current year, so the gain in the revenue forecast was attributable to a technical correction, not to an increase in oil revenue.

Mr. Teal concluded that the model-to-model cumulative decrease from the spring forecast was about $54 million over the period of FY 19 to FY 26. The amount was only about $7 million annually, which would not be visible in the model.

9:14:09 AM

Senator Micciche referred to the DOR revenue forecast presentation given to the committee on October 30, 2017 (copy on file). He clarified that the official forecast showed a 12 percent decline in production, and the 4 percent decline was from an unofficial update. He recalled that the total change in Unrestricted General Fund (UGF) revenue was $2.3 billion. The four percent decline represented an almost $1 billion difference, with the greatest change being in the out years of FY 26 and FY 27 once tax credits were paid off. He wondered why Mr. Teal addressed numbers differently than DOR.

Mr. Teal explained that Senator Micciche was comparing DOR's official numbers, and reiterated that the department had not included $65 million per year in the spring forecast. The funds were now built in to the fall forecast and accounted for $529 million worth of difference. He clarified that he was comparing what was used in the model the previous year to what was being used in the model in

the current year. The revenue forecast presented by LFD had contained the $65 million increase the previous year, and it was still built in. He added that DOR had corrected the $65 million error in the fall forecast, and now LFD and DOR had the same numbers. The increase in revenue in the official forecast was not due to increased oil price or production but was primarily due to correction of a technical error in the forecast.

9:16:58 AM

Co-Chair MacKinnon explained that the committee had heard from the administration, DOR, the Department of Natural Resources (DNR), and the Alaska Permanent Fund Corporation (APFC). As Mr. Teal had reflected earlier, the goal of the presentation was to establish a range of possibilities faced by the state. She discussed consideration of the price of oil used in fiscal planning. She referenced SB 4001 [payroll tax legislation proposed by the governor].

Co-Chair MacKinnon thanked DNR for the updated forecast numbers. She highlighted that there was a great upside compared to what was being described as an error. She discussed the previous forecast and subsequent changes. She thanked the administration for providing a revenue forecast early, in order for the legislature to use it in deliberations.

Co-Chair MacKinnon discussed how tax credits were paid at a calculated rate of 10 percent if the price per barrel of oil was $60/bbl. If the price of oil was below $60/bbl, tax credits were paid at 15 percent. She noted that the current revenue forecast estimated the price of oil at $59/bbl, which created an increase in operating expenses. If the national average for the price per barrel of oil was in the $60 to $65/bbl range, projections would show increased revenue. She stated there were a variety of opinions on the issue.

9:21:00 AM

Senator Micciche commented that when he first served on the committee, the state had been using an optimistic outlook on the price of oil and production level that overestimated revenue. The committee had pressured the administration to become more conservative. He thought the administration had become very conservative with regard to price and

production forecast, and in many cases overly so. He thought that it was essential to look at the numbers in a realistic range. He reminded that the assumptions used were part of a range, and the numbers provided by the Energy Information Administration (EIA) were likely overly conservative.

Co-Chair MacKinnon pointed out the LFD was trying to provide an apples-to-apples comparison in order to examine a specific set of criteria.

Mr. Teal clarified that DOR's forecast the previous year had shown a 12 percent decline in production, due to the fact that the production forecast had not been revised. The department had later expressed that the production forecast was "stale," and the numbers had not been used in the model. The legislature and others had agreed that the 4 percent decline scenario was more reasonable. The error that he referred to was the diversion of insurance premiums to the healthcare reimbursement fund through a bill that sunset in FY 18. The premium money would begin to go back to the General Fund (GF), and DOR had overlooked the fact in publishing the outyear projections. The oversight was corrected. He reiterated that the previous year, LFD had used the 4 percent decline scenario, and had added about $65 million to it. In the current year, LFD matched the official revenue forecast exactly.

Co-Chair MacKinnon believed that the last two years had shown production increases, and another increase was expected. She expected to see the trend reflected in the Revenue Source Book.

9:25:38 AM

Mr. Teal continued discussing slide 4, which showed that projected expenditures were up by a cumulative $934 million from the spring model run. He explained that an inflation rate of 2.25 percent was built into the numbers, as was the increased oil tax credit contributions that were mentioned earlier. He discussed statutory minimum deposits to the oil tax liability, which accounted for a great deal of the increase in the expenditures reflected on the slide.

Mr. Teal relayed that revenue and expenditures combined to make up the deficit; and the slide showed how the deficit

increased by nearly $173 million over the previous year's model.

Co-Chair Hoffman asked about the deficit without the structural draw from the previous year.

Mr. Teal thought that the deficit had been close to $2.8 billion, which the next slide would address since there had not been much change since the previous year.

Mr. Teal referred to when Commissioner Fisher was before the committee, who had explained that Callan and Associates [financial advisors] had recommended the APFC use a lower rate of return than the 6.95 percent that was used the previous year. The commissioner did not specify an amount, but rather talked in terms of inflation plus an additional amount. He relayed that the APFC release projections (dated September 30th, 2017) used an anticipated rate of return of 6.5 percent.

Co-Chair Hoffman pointed out that the deficit was substantial.

9:29:05 AM

Senator Micciche looked at the 'Expenditures' section of the table on slide 4. He considered oil price numbers used in the fall forecast and noted that the price forecast did not predict the price at $60/bbl until FY 21. He questioned the assumption of larger credits on actual price beginning in FY 20. He asked if there was a reason that Mr. Teal did not match the tax payment liability to the price forecast from DOR.

Mr. Teal affirmed that the revenue numbers in the LFD model matched DOR's official forecast exactly. The expenditure forecast being used matched OMB's 10-year expenditure plan, which built in the change in oil tax credit payments. He noted that the tax credit payments showed up as expenditures.

Senator Micciche thought it looked like the tax credit payments were accounted for early by a year or two. He thought it would be interesting to see more background on the calculation.

Mr. Teal stated that the model started entering the higher oil tax payments in FY 19, which is why there was no increase from FY 19 to FY 20. He thought there was an advantage to higher tax credit payments. Instead of continuing payments into the future, there was an expectation that the credits would be paid off in 2025 and 2026 and 2027 deficits would decline substantially. He stated the models would show that in 2026 and 2027 there would be budget surpluses.

Vice-Chair Bishop asked if Mr. Teal was discussing credits still owed.

Mr. Teal answered in the affirmative.

Vice-Chair Bishop asserted that if the tax credits had been paid when the Senate had proposed, the deficits would already be smaller.

Mr. Teal agreed.

Co-Chair MacKinnon observed that the legislative director for the governor was in the gallery and asked for a follow up with Senator Micciche to affirm that a 15 percent payback for tax credits was in the forecast, or if the amount dropped to 10 percent in the formula.

9:32:42 AM

Mr. Teal reiterated that the base case scenario of the model used the official DOR forecast, the OMB spending plan, and the Permanent Fund projection. He thought there could be a tendency to overstate the decline in Permanent Fund earnings and equated that losing a half a percentage point on a $60 billion fund meant earnings were down by $300 million. He thought it was important to know that FY 17 was a very good year for the Permanent Fund.

Mr. Teal discussed $4 billion worth of Permanent Fund earnings that had not been projected in the previous year's model. He asserted that the decline in earnings was not $300 million; rather, the decline was $300 million offset by $270 million in additional earnings with a net loss of $30 million per year. He noted that lower earnings would affect the balance of the Permanent Fund in the long run. The model was not based on what the Permanent Fund earned for government, but rather was based on a fixed 5 percent

to 5.25 percent payout. He explained that the 5 percent payout was based on the balance rather than future earnings, so the $4 billion extra provided higher payouts in the newer version of the model.

Mr. Teal summarized that the budget goal was to cover the additional expenditures. He posited that the state's fiscal situation had deteriorated, but not by as much as might be thought by looking at the major model drivers.

9:36:39 AM

Mr. Teal turned to slide 5, "No POMV Payout," which was a screenshot of the LFD Fiscal model. He explained that the model reflected what things would look like if the legislature did not use the ERA to pay government. He pointed out that there was very little change from the previous year's model. He pointed out the depletion of the Constitutional Budget Reserve (CBR), continued deficits, unplanned ERA draws, and a Permanent Fund value decline. He clarified that the total fund value included the principal (which would not decrease) and the ERA.

9:39:10 AM

Co-Chair MacKinnon stated that the corpus of the Permanent Fund was invested, and so it was possible for the fund to go down as the assets fluctuated.

Mr. Teal confirmed that the balance could change, and furthered that any investment was subject to loss. He relayed that the Permanent Fund principal and the ERA were co-invested; however, any losses or gains that occurred would accumulate in the ERA. He clarified that a budget reserve account was different than the ERA as it only lost money through spending. He discussed the danger of considering the ERA as a budget reserve and outlined a scenario under which the ERA had a large loss.

9:41:44 AM

Senator Micciche referred to a recent committee meeting with the APFC at which it was learned that the fund used to automatically repair realized losses in the corpus by drawing from the earnings reserve. He recalled that the corporation had considered whether the practice was problematic due to a court case that could require

legislative appropriation to keep the corpus whole from a loss. He thought the matter could be complicated by use of the ERA to fund government.

Co-Chair MacKinnon noted that the meeting was informational, so that Alaskans could ponder the fiscal variables being considered. She mentioned the CBR, which and about a $2 billion balance. She explained that the CBR had a lower rate of return due to the necessary liquidity of the reserve. She mentioned that the administration had characterized the reserve fund as being a bridge. She thought LFD and OMB had recommended a minimum of $2 billion as a bridge due to budget timing. She asked if Mr. Teal could comment.

9:44:33 AM

Mr. Teal concurred what Co-Chair MacKinnon had stated, and thought it was also relevant that although there were cash-flow needs, the CBR was not the only source for the funds. He stated that it was possible to use the ERA for cash-flow needs but reminded that the account earned 6.5 percent rather than 2.5 percent or 3 percent. He discussed revenue anticipation notes, which were short-term bank notes that states commonly used and could cover immediate cash flow needs. He agreed with OMB in that the CBR should have a minimum balance of $1 billion, and that $2 billion was reasonable. He preferred a CBR balance of $5 billion, but thought the most important factor was considering the chance of a revenue failure.

Mr. Teal continued to address Co-Chair MacKinnon's remarks, and reminded that a budget reserve account was not intended to be used as a constant source of revenue like it had been used in the past few years. Rather, a reserve account was meant to be used as a shock absorber when there was a revenue failure such as a decline of oil revenue. He pointed out that there had not been replenishment of the CBR. It was not being used as a shock absorber, but rather as a deficit-filler that had no hope of bouncing back.

9:47:29 AM

Co-Chair Hoffman thought Mr. Teal had made an important point. He thought that the state was using the ERA the same way. The legislature was required to balance the budget and had been using the CBR to fill the deficit and now looked

to the ERA. He referenced slide 5 and the demonstrated decline of Permanent Fund value. He thought if there was not a POMV payout, the Permanent Fund could lose value of close to $15 billion by 2027.

Co-Chair Hoffman continued his comments and noted that the Senate had passed the Percent of Market Value (POMV) plan twice, knowing that without such a plan the fund would continue to lose value. The legislature had included increases in the dividend in the Senate's version of SB 26 [2017 legislation relating to the Earnings Reserve Account of the Permanent Fund]. He referred to issues of decreased fund value and how to address the deficit, which is why the legislature was considering structural changes to the way the fund was used. He mentioned a revenue measure proposed by the governor, and considered the fiscal challenges represented on slide 5.

9:51:27 AM

Senator Micciche asked about Permanent Fund Dividends (PFDs) as represented on slide 5.

Mr. Teal stated that the fiscal model assumed PFDs continued be paid according to the statutory formula. He thought the combination of the deficit and high dividends that caused the value of the Permanent Fund to decline.

Mr. Teal referred to Co-Chair Hoffman's comments and thought it was important to note that when the ERA was gone (projected for 2028), dividends and/or a government payout would not get the money as in years past. Dividends would either have to vanish or drastically reduce, as there would not be enough funds in the ERA to pay PFDs and fill the deficit.

Co-Chair MacKinnon reiterated that the model was a snapshot in time that measured a specific set of criteria. She had asked her staff to pull the average earnings for the Permanent Fund. Since its inception, the Permanent Fund had grown by 8.78 percent. She referenced information from actuaries, which had dropped the fund's earning assumption down to 6.5 percent. She noted that the past 5 years of earnings for the corpus and ERA was at 8.94 percent. The last three years showed average earnings of 6.18 percent. She commented that there were huge fluctuations to consider, as the legislature considered the health of the ERA and access to potential sustainable or unplanned draw.

Co-Chair MacKinnon continued her remarks. She thought an unplanned draw was a worst-case scenario for the state to contemplate. She referenced media coverage considering unplanned draws on the ERA. She asked the public to contact their elected officials for information.

9:56:15 AM

Vice-Chair Bishop commented that slide 5 was the "status-quo" scenario with no plan implemented. He stated that the Senate had a plan but needed to figure out how to achieve the plan.

Co-Chair MacKinnon relayed that the Senate had proposed a set of ideas to close the fiscal gap, and the other body had proposed a different set of ideas.

9:57:02 AM

Mr. Teal reviewed some of the assumptions that went into the LFD fiscal model being presented. He explained that there were two lines reflecting expenditures. The dark line was the OMB ten-year expenditure plan with dividends, and the dotted line was without dividends. He explained that the holes that were previously mentioned by OMB Director Pat Pitney were filled in the OMB ten-year expenditure plan. He stated that the model used the OMB plan, but as Director Pitney had noted, there was not a number included for supplementals. The dotted line showed the OMB plan plus $50 million per year for supplemental appropriations. He stated that the number was arbitrary and was intended to be for unanticipated costs for fire suppression and other programs. He thought the amount was a reasonable guess, but it was subject to change by the legislature, as were many of the assumptions being used in the model.

Co-Chair MacKinnon wondered if there was an average for fiscal notes if the most conservative estimate was used by OMB. She wondered if more money should be added to the fiscal scenario. She thought there were more variables being added to the model than in the past.

Mr. Teal stated that variables were always problematic when running models, and therefore LFD sought the expertise of DOR for revenue projections. He added that LFD would use APFC projections for earnings assumptions since APFC was

the one investing the money. The same was true for expenditures. He explained that the expenditure plan listed on the graph was intended to portray FY 18 expenditures at the same level of service, and therefore grew with a 2.25 percent inflation.

Mr. Teal thought the committee might disagree with the assumptions as well as supplementals but could change it in another scenario. He asserted that there was no real way to achieve a number achieved through concurrence of all parties. He stated that LFD tried to use the best numbers available from the various sources and fill in few things. The model did not build in fiscal notes or supplementals.

10:01:43 AM

Co-Chair Hoffman declared that the Senate had requested to use the best numbers possible. He was glad Mr. Teal had mentioned the provenance of the numbers and thought differences should be discussed at the table.

Co-Chair MacKinnon pointed out that fiscal notes were not on the model yet were a spend. She relayed that the Senate had consistently requested a downward trend in state spending and had not been able to accomplish the goal during budget negotiations with the other body. The Senate was looking to the administration to find cost-saving measures to provide services for less or determine which services the state could no longer afford to provide. Even with the addition of supplementals, there were sometimes additional fiscal notes with impact. She considered a wide range of variance in earnings.

Senator Micciche thought if FY 14 numbers were being used (with 2/5 percent inflation rate), the chart would look very different. He thought the state had reduced expenditures fairly significantly. He thought that there had been other changes to the model. He mentioned the OMB capital budget assumption, which he thought changed the picture. He asserted that the Senate did not necessarily support many of the numbers used in the model. He considered examining the model using other numbers.

10:05:28 AM
AT EASE

10:20:22 AM

RECONVENED

Co-Chair MacKinnon mentioned the variation of criteria in the model.

Mr. Teal relayed that he had the opportunity to converse with OMB Director Pat Pitney during the at-ease and had confirmed that he was correct in saying the expenditure was designed to maintain the FY 18 level of services. He commented on the growth of expenditures. He discussed the previous year's capital budget compared to what was assumed in the model. He reported that Director Pitney had mentioned that the administration would be revising its plan. He emphasized that the spending forecast was not a policy plan and would be revised to reflect the governor's policies when the budget came out. He thought it was important to see what the 10-year plan would look like later.

Mr. Teal relayed that DOR had also stated that the forecast it had provided in October was a preliminary forecast. By the time the legislature convened in January, both the expenditure and revenue plans could differ from what was currently displayed in the model. He echoed Co-Chair MacKinnon's remarks that the assumptions on the fiscal plan were variables and did not require acceptance by all parties. He mentioned the utility of a live model that gave the ability for consideration of different variables. He thought it was important to notice that the substantial growth without dividends was at $4.4 billion in FY 18 to $5.6 billion in FY 27. The cumulative increase built into the expenditures was roughly $120 million per year. He thought the committee might want to change the increase assumption.

10:24:45 AM

Mr. Teal displayed slide 6, "POMV Payout", which showed the LFD fiscal model with what might happen if there was a POMV payout. He wanted to be clear that the slide did not reflect the entire Senate fiscal plan, but rather only the Senate payout plan under SB 26. The graphs showed that the deficits were filled and by FY 27 there was a surplus. Although the life of the CBR was extended, it was exhausted by 2023. Because the reserve was exhausted, unplanned draws from the ERA came into effect. He pointed out that the Permanent Fund almost kept pace with inflation, but the

real value declined by a small amount due to the unplanned draws.

Mr. Teal extrapolated on the effect of inflation on the return to the Permanent Fund under the model on slide 6. If inflation took away 2.25 points of the fund's 6.5 percent earnings, the real return would be about 4.25 percent. He opined that a 5 percent nominal payout under the model was not sustainable. He noted that PFDs maintained value and grew with the payout.

10:27:56 AM

Mr. Teal continued to address slide 6. He clarified that he was not trying to say the Senate plan did not work, as the slide did not depict the entire Senate plan. He explained that the revenue limit would reduce the payouts from the ERA when oil revenue was high. He asserted that the revenue limit, which would reduce the payouts from the ERA when oil revenue was high. If the revenue limit was turned on, it caused unintended draws because it shut down draws from the ERA, thereby causing an unplanned draw.

10:30:10 AM

Co-Chair Hoffman asked if the unplanned draw was the same as an unstructured draw.

Mr. Teal answered in the affirmative.

Senator Micciche asked if an unplanned draw was any amount from the ERA above the POMV payout.

Mr. Teal answered in the affirmative.

Senator Micciche asked if the Permanent Fund real value decline was a result of a new earnings number of 6.5 percent.

Mr. Teal answered in the affirmative and stated that the biggest impact of a 6.5 percent rate of return on the Permanent Fund was that it was much harder to keep pace with inflation. The payout was higher at 6.5 percent because of the big earnings in FY 17. In the long term, a 6.5 percent return with inflation was only 4.25 percent. The fund could not sustain a payout of 5 percent under the scenario, even with royalties going into the fund and

helping it retain its real value. He questioned if the goal was to maintain the value of the PF above all else, which he suggested was criteria for the legislature consider as they evaluated the success of various plans.

Co-Chair MacKinnon thought the Senate had included a provision for a three-year review for the reasons Mr. Teal had mentioned.

Co-Chair Hoffman thought the general public wanted a fiscal plan, and also wanted a PFD. He stated that the dividend amount between the House and Senate ranged from $1000 to $1,250. He asked about the increment of $100 million, and if it was the sum of adding $150 to the dividend.

Mr. Teal thought it was fair to say that going from a $1000 to a $1,250 PFD would cost about $175 million per year.

Co-Chair Hoffman thought the amount of the dividend was a major variable to consider. He discussed various dividend proposals and the effect on the budget.

Mr. Teal added that the dividend amount was readily changeable in the model.

Co-Chair Hoffman commented that $100 million was a significant amount of funding to consider and would constitute one-third of what the governor proposed in additional income.

10:35:02 AM

Co-Chair MacKinnon cautioned the public about looking at static representations of the model, which had an embedded set of variables that could change the output dramatically.

Mr. Teal pointed out that the POMV Payout model on slide 6 (with no additional revenues and using the OMB expenditure plan) failed to achieve two goals. He noted that under the scenario the ERA was still growing, and the budget was back to a surplus in 2027. He thought the two factors indicated that the scenario was close to being successful.

Mr. Teal advanced to slide 7, "POMV Payout with Expenditures Constrained to Half the Rate of Inflation." The slide showed the LFD fiscal model from the previous slide except the model assumed agency and capital

expenditures constrained to half the rate of inflation. The single change to the model eliminated unplanned draws, showed a recovering CBR, and grew the ERA. He summarized that all it took to achieve all four goals was to constrain expenditures. He clarified that constraining expenditures was not merely cuts, and expenditures still grew by $50 million per year. He thought that someone would argue that the state's fiscal problems were solved under the scenario. The chart showed that budget reductions were not needed to have a successful plan, but rather to reduce the rate of growth.

10:38:09 AM

Senator von Imhof referred to the 1.25 assumed rate of inflation, which she thought was similar to the 5-year trailing Consumer Price Index (CPI) for the state, which was based in Anchorage and was contained in the Senate plan. She commented that merely controlling growth did not give the state a cushion in case of an unplanned expense. She did not think the scenario gave the flexibility that was needed.

Mr. Teal concurred that the slide represented a scenario and thought that Senator von Imhof was well aware that constraining the budget was easier said than done. He thought it might be difficult to constrain expenditures at half the rate of inflation.

Senator Micciche pointed out that the slide reflected many layers of conservatism in the production forecast and the price forecast. He thought the model could change considerably with a variety of small factors. He thought the model represented a range. He did not believe that a production decline was realistic in the short term but considered that the price of oil was the least controllable variable.

10:41:04 AM

Co-Chair MacKinnon asked if Mr. Teal could discuss the 2.5 percent to 1.25 percent shift equated to dollars.

Mr. Teal addressed an interactive model summary and discussed the OMB 10-year expenditure plan, which showed the change in inflation percentage in dollars. He noted that filling the holes from FY 18 was a big jump of $400

million dollars in the FY 19 budget, after which it grew by $100 million to $120 million through inflation. He looked back at slide 7 and pointed out that while growth was reduced by $2 billion the budget was still increasing. He thought the model was constantly improving. He thought that looking at the goals was valuable because goals came with metrics and it was possible to measure whether the model achieved the desired outcomes. He stated that LFD had added several things to the model to help see whether the legislature was achieving its goals or not.

Co-Chair Hoffman asked if Mr. Teal could point out whether the interactive charts reflected a four-time draw.

Mr. Teal explained that there was a provision in a bill proposed by the governor to transfer (the amount four times the prior years payout) from the ERA to the corpus of the Permanent Fund. He explained that the "four times" rule was a way of inflation-proofing the fund but would not affect the sum of the value of the fund. He looked at the 'Budget Reserves' graph, which showed a large reduction to the ERA in FY 19 and forward. If transfers were not made to the ERA, the rest of the model would change except the inflation-proofing goal would not quite be achieved.

10:45:57 AM

Vice-Chair Bishop commented that the proposed four-times rule would be prudent.

Mr. Teal changed the interactive model to show Co-Chair Hoffman the dynamics of the four-times rule. He stated that LFD could go through the model with the committee in small groups, or as a whole committee if desired. He thought it would work better to do in informal small groups.

Co-Chair MacKinnon pointed out that there were agreed-upon goals of the Senate Majority, including to right-size government and reduce the budget. She stated that the Senate wanted to preserve a dividend for the people of Alaska, and to ensure the corpus of the Permanent Fund was growing and retained its value. The Senate wanted to reinvest and improve the position of the CBR and the ERA. She thought small changes could achieve the goals. She commented on the number of variables pertaining to the use of the ERA and expressed reticence to discussing additional

revenues. She thought there were small things the legislature could do to stem government growth.

10:49:47 AM

Co-Chair Hoffman thought a big point of contention between the two bodies was the split of the earnings from the Permanent Fund. He thought the decision be crucial as to how much money went to PFDs and how much went to the operation of government.

Senator Micciche thought it would have been nice for the committee to have considered adjustments to variables oil price and production. He thought the Senate plan worked. He appreciated Mr. Teal's approach, which he considered a worst-case scenario.

Co-Chair MacKinnon relayed that the Senate had been reaching out to the administration. She appreciated the administration coming forward with additional information for the committee's consideration.

Co-Chair MacKinnon discussed the upcoming agenda.

#
ADJOURNMENT
10:53:28 AM

The meeting was adjourned at 10:53 a.m.