

HOUSE FINANCE COMMITTEE
January 22, 2020
9:05 a.m.

9:05:10 AM

CALL TO ORDER

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

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Jennifer Johnston, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Andy Josephson
Representative Gary Knopp
Representative Bart LeBon
Representative Kelly Merrick
Representative Colleen Sullivan-Leonard
Representative Cathy Tilton
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Rob Carpenter, Analyst, Legislative Finance Division; Lacey Sanders, Analyst, Legislative Finance Division; Alexei Painter, Analyst, Legislative Finance Division; Representative Sara Hannan; Representative Louise Stutes.

SUMMARY

FY 2021 FISCAL OVERVIEW: LEGISLATIVE FINANCE DIVISION

Co-Chair Foster reviewed the meeting agenda. He recognized Representative Sarah Hannan in the audience. He welcomed committee members back. The committee would begin with budget overviews. He reviewed the agenda for the following day.

^FY 2021 FISCAL OVERVIEW: LEGISLATIVE FINANCE DIVISION

9:06:50 AM

Co-Chair Foster invited Legislative Finance Division (LFD) staff to the table.

ROB CARPENTER, ANALYST, LEGISLATIVE FINANCE DIVISION, introduced a PowerPoint presentation titled "Fiscal Overview: House Finance Committee," dated January 22, 2020 (copy on file).

9:07:48 AM

Mr. Carpenter highlighted a presentation outline on slide 2:

- Where have we been?
- Last session
- Where are we now?
- Where are we going?

Mr. Carpenter turned to slide 3 titled "Why Unrestricted General Funds (UGF)?" and spoke from prepared remarks:

I want to point out that this presentation focuses on Unrestricted General Funds. The question often arises as to why do we focus on UGF?

General Funds are typically the focus of most state legislatures in balancing their budgets. Specifically, for Alaska, we focus on what we have termed Unrestricted General Funds.

AS the name indicates, UGF revenues are unrestricted. They can be used for any purpose.

The non-UGF funding sources tend to require fewer annual decisions. These are typically guided by statute, the constitution, some contractual obligation, or the federal requirement.

These non-UGF funding sources are also less likely to get out of balance because expenditures are controlled by receipts and or fund balances

On the fiscal summary - all non-UGF revenues equal appropriations

9:09:15 AM

Mr. Carpenter briefly pointed to a quick summary of the presentation material on slide 4 titled "Where have we been?" He moved to a bar chart on slide 5 titled "Unrestricted General Fund Revenue/Budget History." The chart showed the UGF revenue and budget from FY 76 to FY 21 and the Department of Revenue (DOR) Fall revenue forecast to FY 29. The green shaded portion of the chart showed traditional UGF revenue including oil revenue, oil taxes, and all other historical UGF fund sources. The purple shaded area showed the new use of the Permanent Fund percent of market value (POMV). The bars reflected budget appropriations over time broken out by agency operations in dark blue, statewide items in light blue, and the capital budget in yellow. He highlighted the pink portion of the bars reflecting net fund transfers. He elaborated that the "net fund transfers" were the net of transfers to or from savings or to other accounts within the treasury that were typically not considered expenditures but required an appropriation.

Mr. Carpenter continued to review slide 5. He detailed that in the 1980s revenue had spiked when the pipeline had come online. He elaborated that along with appropriations there had been considerable surpluses. As prices declined there had been a long-term flat trend and budget through FY 05. In FY 06 to FY 08, oil prices had spiked and there had been a tax regime change to Alaska's Clear and Equitable Share (ACES); the spike in oil prices resulted in a spike in state revenue. There had been some volatility in subsequent years and the latest revenue peak had been in FY 12. Following FY 12, revenue had plummeted through FY 16. Traditional UGF revenue had declined from \$9.5 billion in FY 12 to \$1.5 billion by FY 16. He reported that the UGF budget had declined 44 percent (from \$7.8 billion to \$4.4 billion).

Mr. Carpenter discussed that in the past several years the state had been operating at an average deficit of \$2.6

billion. He highlighted a large spike in FY 15 resulting from a one-time appropriation from the Constitutional Budget Reserve (CBR) to address the unfunded retirement liability. He noted the timing of the one-time cash infusion had turned out well. The deficit had been decreased significantly; however, the governor's proposed FY 21 budget built in a \$1.5 billion deficit. The purple shaded area reflected the POMV that started in FY 19, net of dividends. He clarified that nothing on the slide related to the Permanent Fund Dividend except for the adjustment of revenue. He explained that the revenue to the General Fund was net of dividends. The figure had been roughly \$2 billion in FY 19. Assuming the governor's budget, the number would decrease significantly, with approximately \$1 billion going to the General Fund. The slide made no assumptions about the dividend in outyears because the amounts were to be determined.

[9:13:20 AM](#)

Mr. Carpenter moved to a bar chart on slide 6 showing end-of-year reserve balances. He discussed that budget reserves in the CBR and Statutory Budget Reserve (SBR) had been used to fill the deficits. He noted that during the high oil price and revenue years, the legislature had often been accused of spending only, when in fact it had made considerable contributions to the CBR, had paid off the liability, and had put money in the SBR. The efforts had built a savings balance that exceeded \$16 billion and had helped the state weather the storm. He pointed out that reserve balances had declined significantly to the projected FY 20 balance of roughly \$2.3 billion. The governor's proposed budget would leave approximately \$800 million remaining at the end of FY 21.

Representative Knopp referenced slide 5 and noted that since FY 17, the statutory payoff for the PFD had not been followed. He thought that prior to FY 17, all Permanent Fund [Dividend] distributions had occurred outside of the budget. He asked if the expense was reflected in the budget for FY 17 to FY 19.

Mr. Carpenter replied that the expense had not been paid outside the budget documents; however, the payments were not addressed in the chart on slide 5. He elaborated that LFD had always accounted for the appropriations in its budget reports. Historically, they [dividends] had been

accounted for as "other" fund spending. Since the passage of SB 26 that implemented the use of the POMV, the spending had been reclassified as UGF.

Representative Knopp asked for verification it was not reflected in the chart.

Mr. Carpenter affirmed.

Representative Wool referenced the black portion of the [FY 15] bar reflecting a [one-time] CBR payment to retirement. He asked for verification that the payment reflected a fund transfer. He asked if the payment was also reflected in the red [pink] bar as a transfer out of the CBR. He wondered if the slide reflected a double accounting.

[9:16:03 AM](#)

Mr. Carpenter replied that although the payment was technically a transfer between funds in the treasury, because the money appropriated to the retirement funds was forever off limits, it was considered as an expenditure. He detailed that the money was now obligated to pay future retirement benefits. The payment was included in the pink bar [reflecting expenditures] because it had contributed to the decline in the CBR that year [FY 15].

Representative Wool asked for verification that the red [pink] bar was particularly long because it also included the CBR to retirement transfer.

Mr. Carpenter agreed. He noted that there had been a significant decrease from \$15 billion to approximately \$10 billion. He stated the figure accounted for the deficit and the additional \$2.3 billion for a total of \$3 billion.

[9:17:25 AM](#)

Mr. Carpenter moved to slides 7 and 8 and reviewed recent history related to the past session. He discussed that the past session had been challenging and convoluted. By February 2019 the governor had released his proposed \$980 million UGF operating budget reduction. By the end of session, the legislature had accepted \$146 million of governor's proposed reductions. He noted the items only included agency and statewide operations (the capital budget was excluded). The governor vetoed an additional

\$205 million for a total operating budget reduction of \$351 million.

[9:19:07 AM](#)

Mr. Carpenter turned to slide 9 titled "Progression - FY19 to FY20 Budget" pertaining to the PFD. He reviewed that the FY 19 appropriation for dividends was approximately \$1 billion, which provided a \$1,600 PFD. The governor had introduced a full statutory dividend for FY 20, which required an additional \$992 million. He noted that the increase directly offset his operating budget reductions. Ultimately, the legislature had passed a \$1,606 dividend at roughly the same level as FY 19, which had taken just over \$1 billion.

Representative Josephson looked at slide 8 showing legislative cuts as \$146 million. He recalled a cut of \$190 million from the conference committee.

Mr. Carpenter asked for clarification on the question.

LACEY SANDERS, ANALYST, LEGISLATIVE FINANCE DIVISION, shared that the legislative cuts column [on slide 8] was compared to appropriations. She explained that the appropriations column included additional legislation the legislature had passed with fiscal notes. The \$146 million netted the items.

Representative Josephson considered the total \$351 million operating budget reduction for FY 20. He surmised they would know the actual reduction when the supplementals came in. He considered a supplemental budget range of \$250 [million]. He wondered if the figures meant the budget had been cut by about \$100 million.

Ms. Sanders agreed and explained the actual spend for FY 20 would depend on supplementals put forward on February 4.

[9:21:30 AM](#)

Mr. Carpenter briefly pointed to slide 10 titled "Where we are now?" He moved to slide 11 showing the budget progression from FY 19 to FY 21. The governor's FY 20 budget had included a cut of \$351 million. He reported that the governor's proposed FY 21 budget added back \$178 million through a combination of increments and decrements.

[9:22:11 AM](#)

Mr. Carpenter moved to slide 12 and shared that the governor had proposed a full statutory PFD, which required another \$865 million over the FY 20 budget. The proposal would result in a dividend of approximately \$3,100 per Alaskan.

Mr. Carpenter asked Ms. Sanders to speak to the major UGF changes between the governor's FY 20 to FY 21 budget.

Vice-Chair Ortiz looked at slide 12 and highlighted the governor's proposal to increase the budget \$865 million to pay for a full statutory PFD. He asked if it was the governor's proposal to backpay past PFDs [that were not funded at the statutory level].

Mr. Carpenter replied that he did not know if it was the administration's position. He deferred the question to the Office of Management and Budget.

Co-Chair Foster clarified that in prior statements in the media, the governor had communicated a desire to pay the \$1,400 he believed was shorted in 2019. Based on his understanding, the amount was not included in the budget.

[9:23:58 AM](#)

Ms. Sanders addressed major UGF changes between the FY 20 management plan to the governor's proposed FY 21 budget (slide 13). She noted that various colors in the table reflected larger increases or reductions. She began with the Department of Corrections (DOC) budget that had an increase of about \$52 million UGF. The increase included \$17.8 million for a contract to send prisoners out of state; a reduction of \$16.7 million for the closure of the Palmer Correctional Center (the funding had been added by the legislature in 2019 and the facility had not reopened); an increase of approximately \$30 million for inmate population increases projected in HB 49; and a reduction of \$21.3 million in Power Cost Equalization (PCE) funding to be replaced with UGF for HB 49 fiscal notes.

Ms. Sanders moved to the Department of Education and Early Development (DEED) budget with a total reduction of about \$20 million. The overall increase for K-12 foundation

formula funding was \$19 million, including \$10 million UGF and \$9 million for Public School Trust Funds. The budget reflected the removal of a one-time appropriation of \$30 million in FY 20 and the removal of \$5 million for Pre-K grants. The budget included an increase of \$4.6 million to move Public School Trust Funds from agency operations. The governor's budget proposed to use all of the funding in the K-12 foundation formula.

[9:26:31 AM](#)

Ms. Sanders moved to the Department of Health and Social Services (DHSS) budget, showing an increase of about \$134 million. She detailed that a \$128 million increase restored reductions made to Medicaid [in FY 20], which included \$8.3 million for adult dental. The budget also included a \$7.4 million increase for adult public assistance to reverse the FY 20 reduction associated with the maintenance of effort methodology; a \$5 million increase for Pioneer Homes as the division continued to true up its numbers; an \$11.4 million fund source change from UGF to Marijuana Education and Treatment (MET) funds (DGF) due to an increase in available revenue.

[9:27:44 AM](#)

Ms. Sanders moved to the Department of Public Safety (DPS) budget, which included an increase of approximately \$12.8 million. The most significant change was \$10.3 million and 36 new positions to increase trooper capacity. The budget also included an increase of approximately \$900,000 and seven new positions for the new Anchorage Emergency Communications Center and \$1 million for staffing needs to address the backlog in laboratory services.

Ms. Sanders reviewed the changes in the University budget including a reduction of \$25 million based on year-two of the multi-year compact agreement and is allocated as follows: approximately \$9.54 million to the University of Anchorage, \$13.75 million to University of Fairbanks, and \$1.75 million to statewide services.

[9:28:33 AM](#)

Ms. Sanders addressed statewide items including debt service and retirement. Debt service included a reduction of about \$15 million due to a \$10.6 million increase for

general obligation bond payments and a decrease of \$27 million due to the removal of an oil and gas tax credit bonds debt service payment for FY 20. She highlighted that the governor's budget did not include funding for the debt service payment or purchase of oil and gas tax credits in FY 21.

Ms. Sanders reported that retirement system payments increased by \$37.6 million overall including a \$44.5 million increase for the Public Employees' Retirement System (PERS) and a \$6.2 million reduction for Teachers' Retirement System (TRS).

Ms. Sanders reviewed the totals on slide 13. Agency operations and statewide items had a total increase of \$178 million. The governor's budget proposed a full statutory dividend requiring a total of \$2 billion in FY 21, an increase of \$865 million over FY 20. The total budget increase was slightly over \$1 billion.

Co-Chair Foster requested a copy of the breakdown reviewed by Ms. Sanders. He asked for verification that automatic increases such as salary increases were included in the governor's budget.

Ms. Sanders replied in the affirmative.

[9:30:40 AM](#)

Representative Josephson referenced the [oil] tax credit issue. He discussed that the state had historically paid everything that had been submitted as a certificate. He noted there had been a year around FY 16 where the state had paid around \$200 million of a \$700 million total. Subsequently the state had been paying 10 percent. He remarked that at present, the legislature was saying that under the power of its appropriation, it would not pay anything. He asked if the situation was still pending litigation on the bond package.

Ms. Sanders affirmed that the bond package was still pending. She agreed that the legislature had the power of appropriation. She clarified she was noting that the governor's proposal did not include anything at present.

Representative Sullivan-Leonard asked Ms. Sanders to provide more detail on the PERS and TRS portion of the budget.

Ms. Sanders replied that the total state assistance to retirement was an increase of \$37.6 million. She explained the number had initially been projected to be higher. The figure included a \$44.5 million increase to PERS and a \$6.2 million reduction to TRS. She deferred to Mr. Carpenter for additional detail.

Mr. Carpenter relayed that the state actuary had recently decreased the assumed rate of return for PERS from 8 percent to 7.3 percent, which caused an additional liability to the state. Offsetting the amount was an unusually large gain on the health insurance side. The items netted out to considerably decrease the increase from over \$200 million to around \$40 million.

[9:33:25 AM](#)

Representative Sullivan-Leonard asked about the reason for the \$6.2 million reduction to TRS.

Mr. Carpenter replied that the gains on the health insurance side were fairly large and offset the increases on the pension side. He did not know the precise reason TRS went down and PERS went up, but he believed it was primarily due to the different size of the plans.

Representative Wool referenced the DOC numbers. He highlighted the increase of \$17.8 million to send prisoners out of state and a cost savings of \$16 million to close the Palmer Correctional Center. He observed it was almost a wash.

Ms. Sanders agreed.

Representative Wool asked for the headcount of prisoners out from the closure of Palmer Correctional Center.

Ms. Sanders answered it was her understanding there were very few prisoners currently outside the state. Prisoners currently outside the state had medical conditions. The Department of Corrections was in the process of issuing an RFP that had not been finalized and was currently in the procurement process. There was currently no large contract

for prisoners to be sent out of state. Prison capacity in Alaska was at 97 percent without the Palmer facility.

Representative Carpenter asked if the committee would dive deeper into each of the issues at a later time.

Co-Chair Foster answered that at the committee's discretion, they could dig deeper into the items.

Representative Carpenter thought that education, PERS and TRS, and the DOC situation were on the minds of the public. He wanted to do a deeper dive on the issues.

Co-Chair Foster agreed it was a large issue and noted it needed more time.

[9:36:04 AM](#)

Representative Knopp believed the \$16 million for DOC had been appropriated by the legislature the preceding year to reopen the Palmer Correctional Center, but the facility had not reopened. He asked if the administration was requesting to reappropriate the funds to out-of-state contractual services.

Ms. Sanders answered that the governor's budget requested a reduction of the money for the Palmer Correctional Center and a separate increase for out-of-state.

Representative Josephson thought it sounded like the legislature was effective in constraining the allocation to Palmer, although he assumed DOC must be using the funds in other population management ways. For example, if a contract was completed, DOC would be constrained by the way the FY 20 budget was written by the legislature. He asked for verification that the contract would merely sit there.

Ms. Sanders answered that DOC was not utilizing the funding appropriated by the legislature the preceding year for the purpose of opening the Palmer Correctional Center. The language in the bill specified that the funds had been specifically appropriated for that purpose. She explained that any work completed for an RFP to move inmates out of state would have to be conducted with other funding.

Representative Josephson asked how the department could be getting by even if it maximized its other facilities and

did not reopen the Palmer Correctional Center. He thought DOC must be in dire need of the \$16 million.

Ms. Sanders replied that she did not want to speak for DOC and thought it was an excellent question to ask the department. She reiterated her earlier testimony that the correctional centers were currently at 97 percent capacity without the opening of the Palmer Correctional Center.

Co-Chair Foster noted that the DOC finance subcommittee would be meeting the following week where more information would be presented.

[9:38:39 AM](#)

Mr. Carpenter followed up on the oil and gas tax credit issue. He shared that he had discussed the issue with the Department of Revenue (DOR), and he believed an answer from the court case was forthcoming. He reported that DOR was considering the issuance of tax credit bonds. He would not be surprised to see an amendment from the governor adding the funds.

Mr. Carpenter turned to slide 14 showing a comparison of FY 20 to FY 21 including UGF and all funds. The slide showed \$5.1 billion in revenue for FY 20 and \$5 billion in FY 21. Appropriations had been \$5.5 billion in FY 20 and had increased to \$6.5 billion in FY 21, primarily due to the dividend and the \$178 million Ms. Sanders had discussed. He highlighted the \$1.5 billion fiscal deficit circled in red at the bottom of the chart.

[9:40:25 AM](#)

Mr. Carpenter moved to a "swoop graph" on slide 15 highlighting UGF funds going to each agency. The red bars depicted FY 20 and blue bars reflected FY 21. The largest increase went to the PFD. There were also add-backs for DHSS, statewide items, DOC, and all items previously reviewed by Ms. Sanders. He pointed to brackets on the graph used to show the magnitude of the deficit. Starting with the smallest agency and moving to the largest, it would take a reduction of 16 agencies, including part of DOC, to close the \$1.5 billion deficit. Alternatively, beginning with the largest budget component, it would eliminate all but \$500 million to the dividend program. He

clarified that the information was meant to provide perspective only.

Mr. Carpenter moved to slide 16 and addressed "CBR Access and Headroom." He quickly outlined the how the CBR had been used for budget balancing and provided an explanation of CBR headroom. In recent years, the CBR had been used for balancing the budget, but its use had been limited to the appropriation of bills passed that session. For example, in the previous session, CBR access had been granted to balance the budget, but only for bills that had passed that session (any future appropriations had not been eligible). However, a headroom provision had provided up to \$250 million of future appropriations that could be accessed with a simple majority vote.

[9:42:56 AM](#)

Mr. Carpenter advanced to a table on slide 17 showing FY 20 supplementals and CBR headroom. He discussed that the governor's December 15, 2019 budget identified likely supplementals. The likely supplemental items included \$120 million for Medicaid, \$5 million for Pioneers Homes, \$6 million for the Alaska Psychiatric Institute, and \$94.5 million for fire suppression. The slide included other areas LFD believed may have probable supplementals including, \$8.3 million for adult dental, \$7.5 million for public assistance, and an additional amount for fire suppression for spring fires (a total of \$102.5 million including the governor's \$94.5 million increment. The slide also showed \$2.5 million included in the governor's budget for redistricting. He noted the increment for redistricting was the governor's only actual supplemental request thus far. Community assistance was also included on the slide at \$30 million. The total potential supplemental was \$281 million, which was beyond the CBR headroom by approximately \$31 million.

Mr. Carpenter elaborated that the potential supplemental was not the end of the world, but it would mean there may be need for an additional three-quarter vote [to access the CBR].

[9:44:33 AM](#)

Representative LeBon asked for verification there had been a community assistance component in the prior year's budget.

Mr. Carpenter replied that the governor had vetoed the \$30 million increment for community assistance in the FY 20 budget. He explained that if there was no further action, there would be a payout of one-third of the remaining \$60 million balance - a payout of \$20 million.

Representative LeBon asked if it was a return to the funding that was vetoed.

Mr. Carpenter replied in the affirmative.

Representative LeBon asked if LFD believed the community assistance increment would be placed in the supplemental.

Mr. Carpenter responded that LFD had only included the increment on the slide to provide a picture of what the supplemental would look like if the governor chose to include the money.

Co-Chair Foster acknowledged Representative Louise Stutes in the audience.

Representative Carpenter asked if any of the fire suppression cost would be reimbursable by the federal government. He asked if the federal portion had already been taken out of total fire cost.

Mr. Carpenter replied that the slide only included the state funding portion. He deferred to Mr. Painter for additional detail.

ALEXEI PAINTER, ANALYST, LEGISLATIVE FINANCE DIVISION, answered that the \$94.5 million that had already been spent was the UGF portion after federal reimbursements. The additional \$8 million added was based on a long-term average of the spring costs for UGF only. There may be an additional federal cost, but the language in the budget provided unlimited federal authority for fire suppression; therefore, it would not need to be supplemental. The slide included federal reimbursements that had already occurred.

[9:46:43 AM](#)

Representative Josephson thought that when the legislature had completed the three-quarter vote in late July that community assistance had flowed from the reverse sweep of the PCE fund. He stated that in the end, there had been some funding for community assistance.

Ms. Sanders thought there may be some confusion about the PCE fund. She clarified that PCE funds could be utilized to be deposited into community assistance fund. She elaborated that one-third of the balance flowed out, but if the fund was not replenished, the balance was diminished for the following year. Currently there was a lower balance than the full \$90 million, and the legislature had until the end of the current fiscal year to restore the balance to its full amount.

Representative Josephson remarked that the scenario reflected an amendment offered by Senator Lyman Hoffman several years back. He thought one of the presenters had stated that community assistance had been vetoed.

Ms. Sanders replied that the deposit into the fund the previous session had been vetoed by the governor.

[9:48:18 AM](#)

Representative Wool referenced the short fiscal summary on slide 14. He stated that slightly over \$1 billion of the governor's proposed budget came from the appropriation of the PFD. The budget also contained \$178 million more for items compared to the past year. He asked where the other \$300 million in additional deficit came from.

Mr. Painter pointed to slide 14, line 16 titled "Pre-Transfer Surplus/(Deficit)." He explained it was a more normal picture of the state's deficit. He detailed that in FY 20 there had been a \$350 million deficit, not including supplementals; however, there had been direct appropriations from the CBR and SBR (that showed up as fund transfers) to help pay for the deficit. There was a substantial deficit in FY 20 that was being added to with the \$1 billion and \$178 million increases. The SBR had been fully expended and was no longer available. He relayed that the governor's budget did not directly appropriate from the CBR but used it as a deficit filler. He explained that the data showed up in line 19 titled "Post-Transfer

Surplus/(Deficit)" as the post-transfer deficit rather than in the pre-transfer deficit in line 16.

Co-Chair Foster suggested that part of the answer was due to a shortfall in revenue. For example, petroleum revenue was down by \$178 million.

Mr. Painter agreed. He reported that petroleum revenue was down about \$150 million. The POMV draw was up and roughly offset the decline in petroleum revenue. He explained that revenue was shown as down \$100 million; however, much of the amount was the carryforward and a reclassification of royalties. Overall, revenue was fairly flat between FY 20 and FY 21.

Co-Chair Foster looked at slide 14 that showed \$5.5 billion in revenue for FY 20. He referenced Mr. Painter's statement that revenue was down by \$100 million but fairly flat. He asked for verification that the \$100 million accounted for part of the \$300 million.

Mr. Painter answered that \$73 million of the amount was royalties above 25 percent that were appropriated to the Permanent Fund. The funds had been considered UGF in the FY 20 budget and had been reclassified as DGF in FY 21, which was reflected as an offsetting appropriation on line 14. He explained that the \$73 million did not contribute to the deficit. In an effort to avoid confusion, LFD had reclassified the amount as DGF because of the statutory designation that the royalties should go to the Permanent Fund.

[9:51:31 AM](#)

Representative Wool returned to the \$300 million. He stated that the CBR transfer had been \$346 million. He noted that a CBR transfer had not been appropriated for FY 21. He asked if the \$300 million was leftover from FY 20 under the premise that when funds were taken from the CBR they were owed back to the CBR.

Mr. Painter replied that in FY 20, instead of using the CBR as a deficit filler, the capital budget had been directly appropriated from the CBR. The action showed as a fund transfer from the CBR rather than deficit filler. For the FY 21 budget, the governor was not proposing to fund the capital budget from the CBR, meaning there was no fund

transfer from the CBR. He explained that the same thing had happened with the PFD in FY 20 - a portion of the dividend came directly from the SBR, which showed up as a fund transfer. He relayed that the comparable numbers to use were the pre-transfer deficit numbers on line 16 before fund transfers were used to pay for the budget. The pre-transfer line showed an FY 20 deficit of \$350 million increasing to about \$1.5 billion in FY 21.

Representative Wool asked if the difference in deficit was closer to \$1.1 billion or \$1.2 billion. He surmised the majority of the difference was related to the PFD at about \$900 million in addition to \$178 million for other items.

Mr. Painter agreed.

Vice-Chair Ortiz looked at the \$30 million in community assistance. He asked if the money had been distributed to communities throughout the state.

Ms. Sanders answered there was a difference between a deposit into the fund and a distribution to communities. In FY 20 there had been a \$30 million distribution to communities because it had been based on the prior year's balance. In FY 21, if the balance was not increased by depositing an additional \$30 million, there would not be a \$30 million distribution.

[9:54:16 AM](#)

Mr. Painter noted there was a white paper on the LFD website explaining how the community assistance appropriations and flows operated. He noted the complexity of the issue and recommended reviewing the information on the website for further detail.

Co-Chair Foster stated his understanding that every year one-third of the balance in a pot of money was paid out. He detailed that if the total balance was \$90 million, \$30 million would be paid out to communities. He reasoned that if \$30 million was not included in the deposit the preceding year, the fund balance was currently \$60 million, and one-third of that amount was \$20 million. He continued that in the previous year, \$30 million would have been paid out to communities because the [governor's] veto had taken place after the fact. He surmised that going forward the

community assistance funding would be one-third of \$60 million, for a total of \$20 million.

Ms. Sanders agreed [that the amount was accurate] unless there was an additional deposit made in the current year.

Representative Josephson looked at slide 17 and asked about adult public assistance. He shared that his office had prepared a document showing what was vetoed in HB 39 [the original FY 20 operating budget] and what was re-vetoed in HB 2001. His document showed that adult public assistance had been vetoed twice the past year. He asked if it required a plan amendment. He thought the governor's proposal had been to end the program. He wondered why there was a supplemental need if the program had ended.

Ms. Sanders answered that there were two reasons the item was included. The governor's budget and the vetoes that had followed with the funding for adult public assistance were based on moving the program back to the 1983 payment standard with the Social Security Administration. While the federal Social Security Administration was approving the change, which would have saved \$7.4 million, it identified an error in the calculation that went back to 1995. Once the recalculation had been completed, it had been determined that the changes in the assistance provided to individuals was too low; therefore, the governor had decided the program would be continued at the original program amount. The governor was requesting additional money in his budget to bring the program back up to the full amount.

Representative Josephson asked for verification that the item paralleled with adult dental - the administration was proposing to restore the programs to the way they had been in FY 19.

Ms. Sanders answered in the affirmative. The governor was requesting to restore the programs.

Representative Knopp asked if the governor had requested an additional \$30 million for community revenue sharing in his FY 21 budget.

[9:58:40 AM](#)

Ms. Sanders replied that the governor had put an additional deposit into the fund from the PCE fund based on the formula in statute; however, FY 20 had been skipped and did not have the deposit.

Representative Knopp referenced a scenario where \$30 million was not appropriated to keep FY 20 whole. He asked whether the fund would have a balance of \$70 million or \$80 million in FY 21.

Mr. Painter replied that at the end of FY 20 there would be \$60 million, meaning the distribution would be \$20 million. After the \$20 million distribution, the governor would add \$28 million, which would result in a payment of about \$23 million in FY 22 (not the full distribution, but higher than the FY 21 distribution).

Ms. Sanders made a correction on her earlier answer to Representative Josephson regarding adult public assistance. She explained that it had been a separate change that the Centers for Medicare and Medicaid Services (CMS) had been reviewing. There were two pieces including the Social Security Administration and CMS. She clarified that she had misspoken earlier when she had identified which entity had found the error.

Representative LeBon stated that PCE was an endowment of sorts, but not a pure endowment. He asked for verification that the earnings of the PCE annual draw was approximately 4 to 5 percent.

Mr. Painter answered that reading the white paper on the LFD website was probably a clearer description. He explained that the cost of the PCE program was paid for first. After the cost of the PCE program was paid, the legislature was allowed to spend 70 percent of the remaining earnings from the previous year. The earnings had been high enough that 70 percent of the remaining earnings had left about \$28 million for community assistance, which the governor was proposing for FY 21. The amount was based on earnings and not a percent of market value.

[10:01:34 AM](#)

Representative LeBon considered a scenario where funds fell short. He asked if a supplemental amount was placed into

the program to ensure the draw met expectations for the program.

Mr. Painter replied that statute specified that regardless of earnings, the full amount could be appropriated for PCE. He elaborated that even if nothing was earned, the PCE program could be fully funded. He explained that funding could only be used for community assistance or other programs after PCE had been fully funded.

Co-Chair Foster surmised that if the legislature did not do anything there would be a shortage of \$30 million that had been vetoed in FY 20. Additionally, going forward, the excess funding that would be available from PCE funds would be about \$28 million, meaning the funds would be short \$32 million. He explained that several years earlier legislation had changed the PCE payout to allow any excess earnings beyond what was needed for PCE to go toward renewable energy and community assistance.

Ms. Sanders affirmed by nodding.

[10:03:23 AM](#)

Representative Wool asked about the \$6 million Alaska Psychiatric Institute (API) increment that LFD had identified as a likely request by the governor. He asked if it was for capital improvements or operational.

Ms. Sanders answered it was operational funding to continue the contract with Wellpath.

Representative Wool asked for verification that the contract was \$1 million per month.

Ms. Sanders responded that a colleague was available to answer in further detail if needed.

Representative Wool understood the discussion would occur in more depth at a later time. He asked for verification that the funding was not for building improvements such as new doors or windows.

Ms. Sanders agreed. She reiterated that the funding was for operations.

Mr. Painter added that the governor's FY 21 capital budget included a request for capital improvements to API, but it was not part of the supplemental.

[10:04:29 AM](#)

Mr. Carpenter moved to slide 19 showing various graphs of the LFD fiscal model and status quo. He contended that it was the most important slide because it provided the big picture of the state's revenues, budget, and reserves through FY 29. The slide provided the status quo scenario to show what would occur. The data used the DOR Revenue projections and inflation and investment earnings as projected by Callan (the state's investment consultant). The key takeaway circled in red at the bottom left, showed that through FY 29 the state would average a fiscal deficit of \$1.8 billion to \$2 billion per year. Through FY 29 the total deficit would be approximately \$17 billion. He reported that LFD was neutral in its stance and analysts were available to provide any number of scenarios using its fiscal model for fiscal improvement. He offered to quickly go through the slide.

Co-Chair Foster agreed. He asked Mr. Carpenter to focus on the primary takeaway regarding the deficits. He noted LFD's calculation of a \$1.5 billion deficit according to the budget proposed by the governor. He highlighted that the CBR had a balance of \$2 billion. He believed the previous slide specified when the CBR would be drained if the status quo was maintained. He asked for detail.

Mr. Carpenter returned to slide 18 and reported that assuming the supplementals, the CBR balance at the end of FY 20 would be \$2 billion. Assuming the supplementals in conjunction with the governor's FY 21 budget, the CBR balance would be approximately \$500 million at the end of FY 21.

Mr. Carpenter returned to slide 19 and pointed to a bar chart in the upper left showing budget reserves. The blue portion of the bars reflected traditional revenue, the green portion reflected the POMV payout to the General Fund, the orange showed the use of the CBR until depleted, and the remainder of the deficit was filled with the ERA draw shown in red. Under the scenario, the CBR would be drained in FY 22. The data assumed that the ERA [in red] would be used to balance the budget on an ad hoc basis

going forward. The assumption had been used because there was no other way to pay for the budget under the scenario. He noted that as the ERA was utilized the budget reserves bars began to decline as the account was consumed.

Co-Chair Foster asked when the ERA would be depleted.

Mr. Carpenter replied that under the scenario the ERA would be depleted by FY 30.

Vice-Chair Ortiz looked at the upper left chart showing the UGF revenue/budget. He asked about the projection that revenue (shown in blue) would increase slightly. He wondered if the projection assumed anything about increased production or oil going to the pipeline. He asked about the volatility of projected revenue.

[10:10:23 AM](#)

Mr. Carpenter answered that the scenario assumed DOR's fall forecast, which included oil price and production forecasts for the next ten years. He relayed that LFD could change production and price to model another scenario upon request.

Vice-Chair Ortiz surmised it was a volatile section of revenue where anything could happen in terms of large spikes or decreases.

Mr. Carpenter replied in the affirmative. He believed it was a concept that was overlooked in the model. He noted that the probability the forecast would be the reality was unlikely. He elaborated that it was not known what would happen in the following year, much less in 10 years; however, assumptions had to be made.

Co-Chair Johnston asked if the model assumed the ERA's reduction in earning capacity.

Mr. Carpenter replied in the affirmative.

[10:11:54 AM](#)

Representative Wool looked at the chart on the upper left of slide 19. He observed that FY 19 was the "high water mark" and even ten years out, the blue [revenue] bar would

not return to FY 19 levels according to the DOR projections.

Mr. Carpenter affirmed.

Representative Wool considered the \$500 million CBR balance [ending FY 21] shown on slide 17. He asked if the bulk of the decrease in the \$1.5 billion fund balance from FY 20 was to pay a full PFD. He believed about \$1.1 billion of the amount would go to pay PFDs.

Mr. Carpenter agreed.

Representative Wool surmised that if the CBR balance was reduced to \$500 million it was the last time the source could fully fund the budget deficit.

Mr. Carpenter agreed that FY 21 would be the last year the CBR could fully fund the budget deficit.

Representative Wool asked for verification it was the budget the legislature was currently working on.

Mr. Carpenter affirmed.

Representative Josephson returned to the upper left chart on slide 19 where Mr. Carpenter had stated that it was difficult enough to know what FY 21 would look like, let alone FY 29. He thought that when legislators played the uncertainty vision it tied their hands. He did not believe the situation was speculative. He noted that with shale, oil prices were not likely to exceed \$120. Additionally, the CBR was largely gone and there would not be a doubling of production in Alaska National Wildlife Refuge (ANWR) for example. He thought the facts were in and a number of important policy calls remained. He believed it was another reasonable interpretation.

[10:15:02 AM](#)

Mr. Carpenter agreed. He stated that the charts included assumptions from all of the professionals in Alaska. The Department of Revenue had provided its revenue forecast to the best of its ability. The Alaska Permanent Fund Corporation had given the earnings projection on its assets to the best of its ability using their investment advisors. The information also assumed an inflation rate agreed upon

by most people. Whether the projections would materialize was unknown. Given the projections, the charts showed the best guess at what would take place.

Co-Chair Johnston asked for verification that the CBR was currently the state's cash management fund.

Mr. Carpenter agreed.

Co-Chair Johnston asked what kind of assumptions were made to the cost of not having a cash management fund.

Mr. Carpenter replied that he was not sure LFD had assumed a cost associated with cash management. There were policies in place for cash management using the ERA if the CBR was emptied or insufficient for cash management purposes.

Co-Chair Johnston considered a scenario where the earnings from the ERA became a cash management tool. Under the scenario, fund liquidity would need to be maintained.

Mr. Carpenter replied that the data did not include detail at that level. He explained that typically the ERA had a large cash balance at all times that could handle cash flow issues the state may have. He was not sure there would be a significant impact. However, declining balances had a huge impact on earnings power.

[10:17:24 AM](#)

Representative LeBon followed up on earlier committee member comments on the working capital fund that the CBR represented. He considered it to be the state's bridging cashflow including receipts of revenue and expenditures over the course of the fiscal year. He explained that the account represented the state's cash reserve to do business as a state. He pointed out that any private business needed a working capital reserve. He asked what the minimum amount should be.

Ms. Sanders replied that the amount utilized approximately \$400 million on an annual basis. She remarked that the balance could and should be more.

Representative LeBon understood the question was difficult to answer. He asked for verification that the ERA was not the state's working capital reserve account. He noted the

ERA was not intended to be used by the state for working capital on a month to month basis.

Mr. Carpenter affirmed that the ERA was not intended to be a cash management tool for the state's cash flow. He noted that the CBR was not intended as a cash management tool either, it was just how the state utilized the account. He addressed the question about what the minimum balance of the CBR should be. He reported that beyond cashflow purposes, the CBR served as a budget shock absorber. He highlighted that what that amount needed to be to annually cover the volatility in the revenue stream was another pertinent question. He questioned whether the amount should be \$1 billion, \$1.5 billion, \$5 billion, or other.

Representative LeBon believed legislators had an implied belief that the CBR was the working capital account. He noted it was a critical part of doing day-to-day business for the state.

Co-Chair Foster added that for years he had heard the minimum in the CBR should be \$1 billion. More recently he had heard \$500 million and \$400 million. The issue made him nervous. He believed \$400 million was the absolute minimum, but the figure should be about \$1 billion.

[10:20:26 AM](#)

Representative Wool referenced revenue projections broken down into price and production. He noted that there was much talk about the renaissance on the North Slope with new fields coming online. He asked how DOR weighed the information in its projections. He wondered if potential increases in production were balanced against projected decreases in other fields. He asked if production and price was fairly flat in the revenue equation.

Mr. Painter answered that the DOR price forecast was based on the futures market for FY 21 plus inflation. He explained it was essentially a flat real price. For production, the Department of Natural Resources (DNR) took the decline curves for the existing fields and added the potential for new fields. The projection included risk factors for fields that had not yet been developed due to uncertainty about whether the field would come online at all or in the amount or year projected. There was significant uncertainty that was accounted for by not

including all of the potential production for new fields in the middle forecast. There were also projections showing the perfect case scenario and the worst case scenario. He believed the information could be presented the following day.

10:22:18 AM

Representative Josephson recalled testimony from DOR the previous spring strongly encouraging the legislature to leave \$1.4 billion in the CBR. When the legislature had followed up, the department had said possibly \$1.2 billion.

Co-Chair Foster asked Mr. Carpenter to continue reviewing the graphs on slide 19.

Mr. Carpenter complied. He pointed to a table on the lower left of the slide showing the forecasted deficits of \$1.8 billion to \$2 billion per year under the LFD fiscal model and status quo scenario. The table also showed the percentage of the budget that would be covered from savings at approximately 27 percent per year. Additionally, the table showed an unplanned ERA draw of approximately \$1.9 billion, which was essentially the entire projected deficit.

Mr. Carpenter pointed to the upper right chart [slide 19] showing the PFD check under the status quo and according to statute. The scenario followed a full dividend payment until it began to decline as a result of a declining Permanent Fund. The middle bar chart on the right reflected the Permanent Fund balance. The red bars reflected the total Permanent Fund growing with inflation from FY 20, while the multicolor bars reflected the fund principal and the ERA (in purple and green respectively).

Mr. Carpenter pointed to the graph second from the bottom on the right that showed the POMV payout split between dividends and the General Fund. The lower table at the bottom right showed dividends of \$2 billion per year growing up to \$2.3 billion in the outyears with the remainder of approximately \$1 billion going to the General Fund. The plan assumed the statutory 5 percent POMV (FY 21 was the last year at 5.25 percent and the figure dropped to 5 percent going forward). The bottom row showed the effective POMV payout. He explained that given the five-year lag in the calculation and a growing balance, the

effective payout would always be less than 5 percent. In the early years the effective percent was less than 5 percent, but with ad hoc draws the effective percent increased to 7 or 8 percent. He noted that the middle section of the slide showed [cost] variables.

[10:26:12 AM](#)

Representative Wool considered a scenario where everything was kept constant except the dividend check. He asked if LFD had manipulated the effective POMV draw to show zero deficit going forward or effective draw under 5 percent.

Mr. Carpenter responded that LFD likely manipulated the numbers in every possible way. He stated that at an effective POMV of 5 percent, the POMV would be much higher at around 6.25 percent. At a 5 percent effective POMV, the payout would be larger, which would be beneficial to the General Fund, though he did not believe it would fill the deficit. He noted that if the assumption was a 7 percent return and an effective 5 percent payout was desired, it would still cover inflation for the most part.

Co-Chair Foster noted that LFD was available for committee members to ask about various scenarios.

Co-Chair Johnston reminded the committee that working with LFD was more accurate, it was also possible to use the Permanent Fund Working Group modeling. She noted the model showed a point in time with the assumption of \$50 million in supplementals without a revenue shortfall.

Mr. Carpenter thanked the committee. He noted that LFD had implemented an email notification system for any publications posted on its website.

Co-Chair Foster thanked the presenters for the overview. He asked LFD to follow up with a requested breakdown of information. He reviewed the schedule for the following day.

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ADJOURNMENT

[10:30:00 AM](#)

The meeting was adjourned at 10:29 a.m.