

HOUSE FINANCE COMMITTEE  
January 30, 2020  
1:34 p.m.

1:34:04 PM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:34 p.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 (via  
teleconference)  
Representative Cathy Tilton  
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Mike Barnhill, Acting Commissioner, Department of Revenue;  
Brad Ewing, Administrative Services Director, Department of  
Revenue, Office of Management and Budget; Pam Leary,  
Director, Treasury Division, Department of Revenue.

PRESENT VIA TELECONFERENCE

Carol Beecher, Director, Child Support Services Division,  
Department of Revenue; Colleen Glover, Director, Tax  
Division, Department of Revenue; Representative Colleen  
Sullivan-Leonard.

SUMMARY

HB 205      APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 205 was HEARD and HELD in committee for further consideration.

HB 206 APPROP: MENTAL HEALTH BUDGET

HB 206 was HEARD and HELD in committee for further consideration.

FY 21 BUDGET OVERVIEW: DEPARTMENT OF REVENUE

PRESENTATION: SAVINGS FUNDS UPDATE and CASH FLOW DEFICIENCY PLAN

[1:34:59 PM](#)

Co-Chair Foster reviewed the meeting agenda.

#hb205

#hb206

HOUSE BILL NO. 205

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 206

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

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^FY 21 BUDGET OVERVIEW: DEPARTMENT OF REVENUE

[1:35:30 PM](#)

MIKE BARNHILL, ACTING COMMISSIONER, DEPARTMENT OF REVENUE, introduced himself and was available for any questions throughout the presentation.

BRAD EWING, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF REVENUE, OFFICE OF MANAGEMENT AND BUDGET, provided a PowerPoint presentation titled "FY21 Operating Budget Overview Department of Revenue: Core Divisions: Presentation to the House Finance Committee," dated January 30, 2020 (copy on file). He shared that the presentation would focus primarily on divisions within the Department of Revenue (DOR). He began on slide 2, "Mission and Core Programs":

Mission: To collect, distribute, and invest funds for public purposes

- Core Divisions
  - Tax Division: Collect
  - Treasury Division: Invest
  - Permanent Fund Dividend Division: Distribute
  - Child Support Services Division: Collect and Distribute
  
- Support and Oversight Functions
  - Commissioner's Office
  - Administrative Services Division
  - IT sections in divisions
  - Criminal Investigations Unit

Mr. Ewing advanced to slide 3, "Department Overview":

- -\$25.1M (-6 percent) from FY19 to FY21
- -18 positions (-2 percent) from FY19 to FY21

Significant Changes

- Tax: +\$1.65M to fund TRMS in operating budget
- Tax: \$571.6 fund source change (CIP to UGF)
- ARMB: -\$5M for management fees
- APFC: -\$21.1M for management fees

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Mr. Ewing reviewed slide 4, "Funding Sources":

- UGF and DGF represent 8 percent of DOR's non-duplicated budget authority
  
- AHFC, AMHTA, and APFC represent 68 percent of DOR's non-duplicated budget authority

Mr. Ewing moved to slide 5, "Tax Division":

- +\$1,351.9 (+9 percent) and -3 positions (-3 percent) from FY20 to FY21
- Key budget items: +\$1.65M to fund TRMS in operating budget, \$571.6 fund source change (CIP to UGF)

Mr. Ewing advanced to slide 6, "Treasury Division":

- +\$5.8 (+0 percent) and no change in position counts from FY20 to FY21
- Org. restructure to create middle office function

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Mr. Ewing moved to slide 7, "Unclaimed Property":

- +\$1.0 (+0 percent) and no change in position counts from FY20 to FY21

Acting Commissioner Barnhill elaborated on slide 9. The slide was showing the trend for total investment costs to total assets. He explained that 1 percentage of an investment fund was equal to 100 basis points. The slide showed a fee comparison between ARMB, the Alaska Permanent Fund Corporation (APFC), and Treasury.

Representative Wool recalled from subcommittee meetings in years past that the ARMB and APFC invested differently, but had similar performance. He wondered whether that was an accurate assessment.

Acting Commissioner Barnhill answered that the comparisons in terms of investment returns changed, and noted the 3, 5, and 10-year periods since inception of the funds. He stated that 2019 had been an incredible year for investment in capital and fixed income. The department reported investment returns on a fiscal year basis, but for a calendar year he felt confident saying that most funds returned 20 percent in 2019.

Representative Wool remarked that they were managed differently. He noted that the management fees in FY 19 were about the same, but were slightly different in FY 21. He stated that "you get what you pay for."

Acting Commissioner Barnhill answered that the pension system had recently gone through a fairly major shift, and the changing methodologies would occur to get the change in performance over long periods of time.

Co-Chair Johnston noted that the governor's proposed budget took \$21.1 million decrement for the management fees. She asked whether it was a policy statement.

Acting Commissioner Barnhill stressed that slide 9 showed the total picture of the investment management fees.

Co-Chair Johnston clarified her question. She asked if it was a result of the board's decision.

Acting Commissioner Barnhill replied that the department had no involvement in the decision.

Co-Chair Johnston asked about the policy impact on the board's decision.

Acting Commissioner Barnhill answered that the only policy involvement in the board's budget was a request for a certain type of salary.

Co-Chair Johnston stated it was an incentive salary.

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Representative Josephson understood the difference in fees borne by and fees appropriated by. He asked about the recent \$5 million veto.

Acting Commissioner Barnhill did not have a sufficient granular concept of what the \$5 million veto encompassed. All of the fees were based on a basis point when appropriating a dollar figure it was not specific to what was actually paid. It was possible to be using the governor's veto authority to drive investment management policy, but he did not believe it had ever been exercised.

Co-Chair Johnston stated they would want the investment management fees to rise in order to increase investment returns.

Acting Commissioner Barnhill agreed.

Co-Chair Johnston hope that the management of the fund was cognizant of the basis points, and in a good bartering position. She noted that APFC would present [at a later date].

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Mr. Ewing turned to slide 10, "Permanent Fund Dividend Division":

- -\$498.8 (-6 percent) and -6 positions from FY20 to FY21
- Continue to reduce services costs and shift towards online applications

Mr. Ewing advanced to slide 11, "Child Support Services Division":

- -\$218.0 (-1 percent) and no change in position count from FY20 to FY21
- Continue to reduce services costs

Representative Knopp noted Mr. Ewing's statement that the Child Support Services Division was the largest in terms of staff, and he queried the budget for that division.

Mr. Ewing answered that in FY 21, the governor's proposed budget was \$25.7 million

Representative Knopp asked whether 70 percent of that number was federally funding.

Mr. Ewing replied in the affirmative.

Representative Knopp asked if they only distributed what they collected.

Acting Commissioner Barnhill answered the division collected federal money, and did not collect the money to distribute. He noted the director was available online for questions.

Representative Knopp asked about the number in the previous year.

CAROL BEECHER, DIRECTOR, CHILD SUPPORT SERVICES DIVISION, DEPARTMENT OF REVENUE (via teleconference), replied the division had collected \$105 million in the past year.

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Representative Wool noted the one position in Fairbanks, and a facility he assumed was closed in Wasilla. He asked about the facility, and whether it was a place like a storefront where people went into.

Acting Commissioner Barnhill replied that the offices in Anchorage were located in the Atwood Building.

Ms. Beecher added that the division did an extensive look at what was causing people to need to visit the offices, but there was no real need for individuals to physically visit the offices. The services were available online. The goal was to improve services so that no one needed to walk through the doors. There were online appointments people could make, most of which took place on the phone.

Representative Wool wondered whether it was possible for people to visit the building.

Ms. Beecher replied in the affirmative.

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Representative Josephson noted that the use CSSD to help with accounting was in order to prevent any contention about what was paid.

Mr. Ewing reviewed the administration and support budget on slide 12.

Mr. Ewing turned to slides 13 and 14 showing changes from the FY 21 adjusted base.

Vice-Chair Ortiz looked at line 3 on slide 13 related to the consolidation of the Fish Tax Group into the Excise Tax Group.

COLLEEN GLOVER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), looked at line item 3. She shared that there had been open positions for quite some

time and there had been difficulty with recruiting. The person in the Juneau position had left.

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Vice-Chair Ortiz asked how the change benefitted taxpayers.

Ms. Glover answered that the benefit from her perspective was that two of the three employees were filled by existing tax money, which already were familiar with the system.

Vice-Chair Ortiz recalled the previous year there had been discussion about removing the local share of landing and fish taxes from communities. He wondered whether the landing taxes were a part of the fish taxes

Ms. Glover answered that the Fish Tax Group would process the fish landing tax returns, and the Accounting Group in Juneau handled the revenue sharing.

Acting Commissioner Barnhill added that there were two tax types: the fisheries landing tax and the fisheries business tax. He remarked that there was a recent administration proposal to end the 50 percent revenue sharing. He stated that the proposal was not pursued in the current year.

Vice-Chair Ortiz wondered whether the accounting was conducted in Juneau.

Ms. Glover answered in the affirmative. The accounting team was all located in Juneau.

Representative Wool looked at line 5 on slide 13, and wondered whether it related to the reduction in authority to reflect management fee savings.

Acting Commissioner Barnhill replied in the affirmative.

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Representative Wool looked at line 12 on slide 14 related to staff retention. He asked if it was related to the bonus structure.

Acting Commissioner Barnhill replied in the negative. The bonus retention program was not included in the budget.

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Vice-Chair Ortiz wondered if the fish taxes were going under excise taxes, whether there would be clear delineation between the times. He was concerned the money would go into excise taxes.

Acting Commissioner Barnhill replied in the affirmative

Ms. Glover added the proposal was an organizational change, and the information would continue to be available in the system.

Mr. Ewing summarized the presentation on slide 15:

Efficiency gains in Tax, PFD, and Child Support Services Divisions results in reductions of -\$1,174.2  
| -3 PFT, -6 PPT

Tax -\$346.6 UGF | -3 PFT

PFD Division -\$527.6 Other | -6 PPT

Child Support Services -\$102.0 GF Match, -\$198.0 Fed

ARMB Custody and Management Fees reduction of -  
\$5,000.0 Other

Reducing uncollectable authority in Admin and Support results in reductions of -\$631.5

Tax Revenue Management System (TRMS) maintenance and support \$2,221.6 UGF, -\$571.6 CIP

Representative Josephson asked if ARMB had taken a position on the reduction of management fees.

Acting Commissioner Barnhill replied that decisions on management fees were made entirely by ARMB. The change was not and had never been driven by the executive branch.

Representative Carpenter noted there were a number of positions that had been eliminated. He asked if the department still had the staff needed to do the work.

Acting Commissioner Barnhill replied in the affirmative.

^PRESENTATION: SAVINGS FUNDS UPDATE and CASH FLOW DEFICIENCY PLAN

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Acting Commissioner Barnhill noted that his colleague would provide the presentation and he would interject occasionally. He provided an introduction prior to the presentation. He spoke to the volatility in revenue tied to oil prices. He highlighted two types of volatility. The state had historically used the Constitutional Budget Reserve (CBR) as a way to address revenue shortage. He believed there was a great degree in interest to identify the minimum cushion needed in the CBR to maintain the fund. The state had a several year practice as using the CBR as a source of recurring revenue and not a rainy day fund. As long as the CBR was drained, it would not be available as a rainy day fund. He noted the need to address the structural deficit; there was no minimum cushion if the fund was continually used to fund the deficit.

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Representative Josephson asked about a specific proposal.

Acting Commissioner Barnhill stated that the administration did not have a specific proposal, but it had also stated that everything was on the table - including a change to the PFD formula, new revenues - particularly in the form of a sales tax with a change to the constitution, and spending reductions.

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Co-Chair Johnston took Acting Commissioner Barnhill's comments seriously. She spoke about formula driven programs - the largest was for the dividend. She discussed that the outcome of the current year could limit what the legislature did the following year.

Acting Commissioner Barnhill answered that if nothing was done to address the structural deficit, there would be major issues and the balance of the CBR would be \$500 million. Regardless of the discussion, the number was likely too low.

Co-Chair Johnston stated that the proposals to address the situation would likely not come into effect for several years.

Acting Commissioner Barnhill noted they would begin the presentation to address the questions.

[2:32:29 PM](#)

PAM LEARY, DIRECTOR, TREASURY DIVISION, DEPARTMENT OF REVENUE, provided a PowerPoint presentation titled "Update on the State's Rainy Day Funds and Discussion of State Cash Flows," dated January 30, 2020 (copy on file). She began on slide 3 titled "FY21 Days that Alaska could run on Total Balances (Rainy Day and Other Funds)." She remarked that the slide did not include the Permanent Fund Dividend (PFD) amount. She remarked that the CBR would include about six months of coverage of the operating budget. She remarked that there were many ways to determine the appropriate size of a rainy day fund.

Co-Chair Johnston wondered whether there was an inclusion of the full draw on the headroom, or only what was budgeted in the year prior.

Ms. Leary answered that they were expected cash balances at the beginning of FY 21.

Co-Chair Johnston remarked that the number was after earned income and court settlements.

Acting Commissioner Barnhill furthered that the CBR was historically used as a structural backdrop.

Co-Chair Foster queried the reason for the difference in the \$100 million between the forecasts.

Ms. Leary stated it was only an estimate.

Representative Wool asked if the exercise was a standard metric done by other states [slide 4].

Acting Commissioner Barnhill referenced reports done by the Pew Trust on rainy day funds. The reports came up with a suggestion that states should base the size of their rainy day funds on revenue volatility. Alaska had the highest

revenue volatility, consequently it needed a high rainy day fund balance.

Representative Wool reasoned that the pipeline could stop flowing.

Acting Commissioner Barnhill discussed that five years earlier they were on a countdown clock. He stressed had not taken a shutdown of the pipeline, but a decrease in revenue to start to examine the rainy day fund structure.

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Vice-Chair Ortiz asked if the calculation of volatility factored into the tax regime established under SB 21.

Acting Commissioner Barnhill answered in the affirmative.

Co-Chair Foster asked the committee whether it preferred to hold questions.

Representative Josephson suggested holding questions until after the presentation.

Acting Commissioner Barnhill suggested that they would introduce the concept of volatility management.

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Ms. Leary moved to slide 5 and reviewed the CBR fund:

#### Constitutional Budget Reserve Fund

In 1990, voters of Alaska adopted an amendment to the constitution creating the CBRF. The fund was established as a savings fund to enhance budget stability. Consists of deposits resulting from resolutions of disputes about the amount of mineral lease bonuses, royalties, or taxes.

Legislature may appropriate from the CBRF to fund operations under certain conditions:

Simple majority vote if available funds from other sources are less than amount appropriated to fund state government for the previous fiscal year.

Otherwise 3/4s vote.

Borrowings are allowed to fund temporary cash deficiencies and budget shortfalls as appropriated by the legislature.

Borrowings must be repaid to the CBRF when there is a surplus in the general fund at the end of the year.

As of FY10, the CBRF was repaid and no borrowing occurred FY 11-FY14.

A Sub-fund of the CBRF was established in 2000. In 2008, \$4.1 B was deposited (1.5 CBRF Main + \$2.6B from GF). Sub Fund was liquidated in 2015 as required by statute as funds were deemed to be needed with 5 years.

Ms. Leary moved to a graph showing the CBR historical invested assets.

Ms. Leary highlighted slide 8, "Power Cost Equalization":

The purpose of the PCE Endowment fund is to provide for a long-term stable financing source that provides affordable levels of electric utility costs in otherwise high-cost service areas of the state.

5 percent of the monthly average market value of the fund for the previous 3 fiscal years may be appropriated. If prior year's earnings exceed this amount, 70 percent (not to exceed \$55M) of the difference can be spent on related identified programs. Commerce is the agency that oversees the spending of the fund. SB196, effective 6/30/2016, changed the spending target from 7 percent to 5 percent.

Fund History:

2000-Power Cost Equalization Endowment Fund  
established from Constitutional Budget Reserve  
Appropriation of \$100 million

2002-PCE receives \$89.6 million from proceeds of the sale of the four dam pool hydroelectric project.

2007-Additional appropriation of \$182.7 million

2012-Additional appropriation of \$400 million

Ms. Leary moved to slide 9 showing how the PCE fund had grown. Slide 10 showed how the fund was invested and balances.

Ms. Leary turned to slides 11 related to the Alaska Higher Education Investment Fund. She noted that slides 12 showed the balances of the fund and the targeted investment allocation. The balance reference the amount at the end of December.

Ms. Leary moved to slide 14, "GeFONSI I and II":

- GeFONSI includes the General Fund and Other Non-segregated funds invested in a pooled environment (GF proper= \$400 million).
- Department of Administration separately accounts for each fund within State Accounting system.
- Department of Revenue is responsible for investing the GeFONSI and calculating and allocating daily investment earnings to each fund.
- 185 funds, assigned as Types 1, 2, or 3. Type 1 funds receive their earnings, the others do not.
- GeFONSI II was created in 2018 to target a higher risk return profile and includes funds that are type 2 or 3.

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Ms. Leary turned to slide 16 showing the GeFONSI I and II target asset allocations. She total fund balance was \$2.6 billion.

Representative Merrick asked if the administration was planning to eliminate any of the funds.

Acting Commissioner Barnhill asked if she was speaking to PCE.

Representative Merrick replied she was speaking about the GeFONSI.

Acting Commissioner Barnhill replied that the answer was no to both questions.

Representative Wool surmised that the GeFONSI referred to the investments in the general fund.

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Ms. Leary answered that the \$2.6 billion consisted of general fund, but was a subset as a working capital.

Representative Wool surmised it was the funds that were dispersed and not dedicated, and the rest was an investment.

Ms. Leary answered in the affirmative.

Acting Commissioner Barnhill noted there was a list of all of the funds the department could provide.

Co-Chair Foster requested the information.

Representative Merrick asked if all of the funds in GeFONSI were subject to the reverse sweep.

Ms. Leary answered in the negative.

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Representative Merrick asked if the list of funds that would be provided by DOR indicated whether the funds were subject to the reverse sweep.

Ms. Leary answered they could provide the information.

Acting Commissioner Barnhill addressed slide 18 titled "Alaska has the highest Tax Revenue Volatility." According to Pew, Alaska had the highest tax revenue volatility. He stressed that the composition of the state's volatility had

changed. The general fund revenues were no longer 80 percent of volatile commodity.

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Representative Carpenter asked if there was any way to show what volatility may be with different revenue options such as sales tax or other.

Acting Commissioner Barnhill answered in the affirmative. The department could model different scenarios. He remarked that if they were not going to make any structural changes there was no minimum cushion - the CBR would just be used for the fund.

Vice-Chair Ortiz asked if a strategy were built to allow the Permanent Fund to reach \$100 billion, the volatility would decline, based on the 5 percent POMV draw.

Acting Commissioner Barnhill answered that in the POMV formula there was a lagging formula using the first five of the past six years.

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Representative LeBon spoke to the need for money in the ERA.

Acting Commissioner Barnhill answered that the obvious solution was to convert the account to an endowment. He remarked that a similar discussion had occurred several years earlier.

Acting Commissioner Barnhill looked at various revenue techniques available to manage volatility on slide 20.

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Acting Commissioner Barnhill moved to cash flow volatility on slide 22.

Ms. Leary reviewed a pictorial of the treasury's incoming cash flow including tax revenues, federal dollars, earnings reserve funds, and agency receipts. She moved to the cash management objectives on slide 23 including maintaining adequate liquidity (\$400 million), optimize cash resources,

safeguard state assets, and record financial activity affecting cash.

Co-Chair Johnston asked when the greatest cash need took place throughout the year.

Ms. Leary answered that the beginning of the year required significant cash. She remarked that the department had made changes in the past couple of years including a move to quarterly payments.

Ms. Leary advanced to slide 24, "Cash vs. Accrual balances":

- Cash balance is what you have in the bank at a given point in time.
- Accrual balance takes into account what you have earned and when a liability is incurred at a particular point in time. It is what you should have at a particular point in time after all expected receipts and expenditures come in and out.
- Simple example: Your bank balance shows you have \$1,000 in cash on July 31. However, you know that you wrote checks for utilities on July 25 for \$400 that are for July utilities that have not yet cleared. You may have also earned a paycheck of \$1,200 for work performed in July. Your accrual balance on July 31 would be \$1,800.

Ms. Leary turned to slide 25, "Cash Flow Deficiencies":

- Prior to 1985, most unrestricted revenues flowed into and stayed in the General Fund for expenditure.
- Over time, the legislature has established many subfunds to segregate cash for budgeting purposes, resulting in less cash available to pay day-to-day operating costs.
- Expenditures can occur prior to receipt of revenue, resulting in a cash flow deficit:
  - Federal programs require expenditures before reimbursement.

- i.e. Medicaid, Transportation, etc...
- Beginning of year appropriation transfers do not match incoming revenue.

Ms. Leary looked at slide 26, "Cash Flow Deficiencies":

- Borrowing from budget reserve funds has been the solution of both cash shortages (cash flow deficits) and revenue shortfalls (budget deficits).
- During FY93-FY05, the legislature included language in the appropriation act permitting borrowings from budget reserve funds.
- The CBRF was fully repaid by FY10.
- Borrowing from the CBRF recommenced in FY14
- Per FY18 CAFR \$9.9B is owed to CBR

Ms. Leary turned to slide 27, "Cash Deficiency Memorandum of Understanding":

- Original MOU signed 1994 by DOR, DOA, OMB and LAW.
- Updated December 1, 2017.
- Targets \$400m dollar minimum threshold.
- Outlines procedures for addressing cash deficiencies:
  - Develop monthly cash projections.
  - Monitor daily general fund cash balances.
  - Transfer from SBR, CBR and ERA as appropriated.
  - Perform temporary interfund borrowing.
  - Borrow from general fund sub funds, if temporary
  - If all appropriations/borrowing are exhausted:
    - Seek legislative action through the Governor to access additional funds through appropriation from other Rainy Day Funds discussed above.

➤ Prioritize disbursements, restrict expenditures.

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Ms. Leary advanced to slide 29 and reviewed a bar chart showing historic actual cash inflows and outflows from FY 17 to FY 19. She pointed to the blue portion of the bar in FY 19 showing the ERA draw.

Ms. Leary turned to slide 32 and addressed the daily General Fund sufficiency balance calculation. The calculation started with the GF cash balance minus the payments outstanding and cash receipts in suspense to equal the available GF cash. She turned to a graph on slide 34 showing the General Fund sufficiency from July 1, 2019 to December 31, 2019.

Co-Chair Johnston knew two years did not provide a frame. She asked if the information was available for the previous year as well.

Ms. Leary answered they could provide the information.

Co-Chair Johnston understood and noted Ms. Leary had done a good job explaining the need for cash draws at the beginning of a year. She asked about the specific stress factors to the CBR.

Ms. Leary agreed to provide the information. She moved to slide 35 showing GF sufficiency from January 1, 2020 to June 30, 2020. The remainder of the chart showed projections - the information changed daily. Much of the trends were based on the prior year 6-month snapshot based on what was paid out.

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Co-Chair Johnston asked if the projection factored in a sizeable supplemental budget.

Ms. Leary described the information as money coming in and coming out.

Acting Commissioner Barnhill stated that his understanding was the charts included the supplemental.

Co-Chair Johnston asked for verification that the charts included the headroom.

Acting Commissioner Barnhill replied in the affirmative.

Co-Chair Johnston spoke about fast tracking the supplemental.

Acting Commissioner Barnhill replied that the differential would draw the starting balance down.

Co-Chair Johnston felt that there should be a consideration of the departments potential snapshot the following day.

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Co-Chair Foster asked how the department dealt with situations where the actual was not as simple. He asked what would happen if the governor added \$1,400 for a PFD supplemental.

Ms. Leary answered that the department paid close attention to what was happening. She remarked that the \$400 million floor allowed for flexibility to situations that would result in a larger than anticipated payout.

Acting Commissioner Barnhill stated that the purpose of the chart on slide 35 was to time cash flows.

Representative Josephson noted that there was a veto the previous summer of about \$450 million. He remarked that there only about \$222 million had been restored, so the remaining funds remained in the GeFONSI.

Acting Commissioner Barnhill answered that he needed to see the exact composition of the veto dollars.

Representative Josephson asked whether the administration would welcome further statutory reform.

Acting Commissioner Barnhill answered that similar questions had come up when DOR made the presentation to SFC.

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Representative Josephson asked about the draws and the headroom issue. He wondered if headroom was included.

Acting Commissioner Barnhill responded that he had used the term, "back stop." Headroom had a specific amount attached to it.

Co-Chair Johnston suggested that all of the factors discussed in the previous 10 minutes are factored in the volatility of the cash flow.

Acting Commissioner Barnhill agreed with Co-Chair Johnston's comment.

Representative Carpenter was hesitant to ask his question. He wondered about two lines that tracked similarly. He wondered why the two lines did not track and wondered why that was the case.

Ms. Leary responded that she thought the representative was slightly in the weeds. However, she noted that it may have been that spending was higher in that specific timeframe.

Representative Carpenter pointed to where the lines came close together in the first 3 months and were separated in the last three months. He wondered whether that was an area of concern.

Ms. Leary responded that it was not an area of concern.

Representative Carpenter felt that the separation was volatility, and queried the causation for that issue.

Co-Chair Foster hoped the answer was a simple one having to do with a difference in oil prices, however it was more complicated.

Ms. Leary turned to slide 37. She explained the slide had taken a look at where they may need to take funds from the ERA. She remarked that in FY 21, the majority was \$1.086 billion in the operating reserve for operating purposes UGF. She turned to slide 38, which was closer to the deficit anticipated in the governor's budget.

Ms. Leary advanced to slide 39, "Take Aways":

- Cash flow forecasting is always wrong.

- Even if the State budget is balanced, borrowing for cash flow deficits will occur.
- Budget deficit borrowing may occur if forecasted assumptions are wrong.
- How much is borrowed depends on the actual amounts and timing of revenues and expenses.
- Higher Revenue Volatility requires greater Rainy Day fund reserves.
- Volatility management techniques are available.

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Representative Wool looked at slide 20 and asked about lagging the Permanent Fund.

Acting Commissioner Barnhill answered that was already underway, and was the POMV.

Representative Wool wondered whether the distribution formula alternatives looked back longer to "smooth it out."

Acting Commissioner Barnhill answered they had a different smoothing methodology than the state's current lagging method.

Representative Wool surmised that the formula changed how the fund was earning.

Acting Commissioner Barnhill stressed that the formula changed the distribution system of the fund.

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Representative Carpenter looked at historic actual inflows and outflows. He asked whether the slide represented the state expenses and revenues.

Ms. Leary answered that slide 29 did not represent state expenses and revenues. Rather, it was a check for DOR on what was borrowed.

Acting Commissioner Barnhill remarked on an answer he had given to Representative Josephson earlier.

Representative Carpenter asked how long revenue not transferred into the Permanent Fund.

Acting Commissioner Barnhill answered two years.

Representative Carpenter continued with his question.

Acting Commissioner Barnhill answered that the constitution required 25 percent of royalties to be transferred to the Permanent Fund .

HB 205 was HEARD and HELD in committee for further consideration.

HB 206 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the schedule for the following day.

#

ADJOURNMENT

3:40:59 PM

The meeting was adjourned at 3:40 p.m.