

HOUSE FINANCE COMMITTEE
March 11, 2020
1:36 p.m.

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CALL TO ORDER

Co-Chair Johnston called the House Finance Committee meeting to order at 1:36 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
Representative Cathy Tilton
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Pat Pitney, Director, Legislative Finance Division; Alexei Painter, Analyst, Legislative Finance Division.

SUMMARY

HB 300 PERM FUND: APPROPS FR EARNINGS RESERVE

HB 300 was HEARD and HELD in committee for further consideration.

HB 306 PFD/GF APPROPS; EARNINGS RESERVE

HB 306 was HEARD and HELD in committee for further consideration.

Co-Chair Johnston reviewed the meeting agenda. The committee would be hearing model scenarios on Permanent Fund Dividend legislation.

#hb300

#hb306

HOUSE BILL NO. 300

"An Act relating to deposits into the dividend fund and income of and appropriations from the earnings reserve account; relating to the community assistance program; and providing for an effective date."

#hb306

HOUSE BILL NO. 306

"An Act relating to deposits into the dividend fund and income of and appropriations from the earnings reserve account; establishing a permanent fund dividend task force; and providing for an effective date."

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PAT PITNEY, DIRECTOR, LEGISLATIVE FINANCE DIVISION, made opening remarks and introduced a PowerPoint presentation titled "HB 300 and HB 306 Modeling Overview: House Finance Committee," dated March 11, 2020 (copy on file). She shared that the presentation used static modeling projections because it was much easier to explain, especially for individuals looking at the materials on the website. The projections were built on updated oil and percent of market value (POMV) forecasts. She noted the updates had been made due to the dramatic change in the market and drop in oil price in the past couple of weeks. She detailed that oil futures were trading at \$40 per barrel, which was as good a price predictor as anything. The Department of Revenue (DOR) typically came out with an updated forecast towards the end of March; however, because the drop in price had been so dramatic, the Legislative Finance Division (LFD) felt it would be irresponsible to assume the forecast from the previous fall would come to fruition.

Co-Chair Johnston shared that she was happy with the method LFD had selected. She detailed that a recent revenue report provided by DOR specified that the fall [2019] forecast had placed significant emphasis on the futures market. She

asked what assumption LFD used regarding the draw from the Permanent Fund.

Ms. Pitney answered that the question would be addressed in the presentation.

ALEXEI PAINTER, ANALYST, LEGISLATIVE FINANCE DIVISION, began on slide 2 titled "Assumption: Oil Price." He shared that DOR's spring forecast would be coming out soon. The fall forecast had assumed an oil price of \$59 per barrel in FY 21, which had been based on the futures market at the time. He noted there was no direct futures market for Alaska North Slope (ANS) crude; therefore, the forecast typically used the futures market for Brent, a global, waterborne crude for all of the various crude oils moved on tankers. Generally, ANS crude tracked closely to Brent, which made it a good stand-in for the ANS price. As of the previous day, ANS crude was about \$37 per barrel. The models in the presentation used a base price of \$40 per barrel for FY 21. He elaborated that the future's market for Brent showed prices climbing to \$40 per barrel sometime during FY 21. He noted that if he were to prepare the models on the current day, he would likely have used \$41 per barrel.

Mr. Painter continued to address slide 2. The presentation assumed the average would be \$40 per barrel for the remainder of FY 20, which may be overoptimistic, but it was a nice round number. He reported that \$40 per barrel would result in a revenue reduction from the fall forecast of about \$300 million in FY 20. He explained it would mean the price for the fiscal year of about \$55 versus the \$63 projected in the fall.

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Mr. Painter stated that combined with the governor's supplementals it would result in a deficit of about \$800 million in FY 20. For FY 21, the impact of the lower price assumption was about \$550 million. He clarified that the data only pertained to the oil market and did not factor in any tax changes due to the Coronavirus or any other factors that could impact tax revenue. He highlighted other potential impacts to revenue. He detailed that the revenue forecast had called for about \$50 million of unrestricted investment revenue (interest earned on the state's savings accounts). However, in the low interest rate environment,

\$50 million may be high. He relayed that in 2019, the state had received approximately \$16 million of corporate income taxes from the tourism industry, but with the hit to cruise ships in the current year, the number may be high. He reasoned that a reduction of \$550 million was likely a little on the conservative side if oil prices held. He reiterated that LFD had used round numbers that could easily be accessed until the spring forecast was published.

Co-Chair Johnston asked about any impact to the fishing industry.

Mr. Painter answered that there would likely be a price impact on fish in the coming summer, but he did not know what the scale would be. He noted that a reduction of \$600 million may be more realistic when including the secondary, non-petroleum impacts of the Coronavirus.

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Mr. Painter turned to slide 3 titled "Assumption: Oil Production." The first bullet specified that LFD was still using the fall production forecast. To date, production had been slightly below the forecast, but not significantly compared to the price difference. The fall forecast showed production of just under 500,000 per day for the next decade - the number declined a bit and was expected to rebound as new fields were presumed to come online. The fiscal model also included the low and high production forecasts prepared by the Department of Natural Resources (DNR). He detailed that the low forecast assumed that very few or no new developments would succeed, which showed production steadily declining to about 320,000 barrels by FY 29. The high forecast reflected the optimistic case assuming that most or all of the potential new developments succeeding and showed production of nearly 700,000 barrels per day in FY 29. He reminded committee members that the data was based on the fall forecast and it was possible that with a different oil price assumption, DNR may revise its production forecast in the spring.

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Mr. Painter turned to slide 4 titled "Assumption: Permanent Fund Earnings." He highlighted that market performance had not been great during the current year. The LFD modeling used the Alaska Permanent Fund Corporation's (APFC) low

return scenario for FY 20 of -0.52 percent, which would put the total Permanent Fund balance at about \$63.5 billion at the end of FY 20. He noted the current balance was close to the \$63.5 billion. He shared that LFD believed it was a reasonable return to assume given the stock market performance for FY 20. The modeling also used the APFC forecast of a 7 percent total return beginning in FY 21. He pointed out that the low return scenario still assumed there was a positive statutory net income in FY 20 despite the negative total return, which was reasonable based on the amount already realized. He noted that the reductions in the stock market essentially brought the market back to 2018 levels. He elaborated that while it looked like a substantial decline, APFC may have purchased the stock prior to 2018 and gains may still be realized when the assets were sold when APFC rebalanced its portfolio. The market performance in the past two years had been very positive and the current declines were unwinding some of those increases. He clarified that the situation was not like the one in 2008 when assets had been sold at a loss.

Representative Carpenter asked if Mr. Painter had stated the projected Permanent Fund balance was \$63.5 billion by the end of the calendar year.

Mr. Painter clarified that the number pertained to the end of the current fiscal year.

Vice-Chair Ortiz asked if the current projected fund value was \$63.5 billion despite the recent total of about \$67 billion.

Mr. Painter replied that as of earlier in the day, the previous day's Permanent Fund balance had been about \$63.5 billion (approximately the level of the low return scenario for the end of the fiscal year).

Representative Josephson asked what may have been realized that was protected from a bear market or recession.

Mr. Painter responded that APFC had about \$1 billion to \$1.5 billion in dividends, interest, and real estate rent that came into statutory net income regardless of the market. Additionally, gains were already realized throughout the year prior to the stock market decline, which would not be erased. He added that even as APFC may shed some old stocks, if they were purchased prior to 2017,

a gain would be realized even though the stocks were significantly below their peak. He explained that the peak may have been several months back, but there would still be a gain from when the stocks were purchased.

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Mr. Painter moved to slide 5 titled "Other Assumptions." The default budget assumption used by LFD was that spending would be the governor's amended operating, capital, and supplemental budgets growing with inflation. He noted there were some scenarios in the presentation that used different assumptions. The modeling assumed that supplemental budgets in future years would be \$50 million as opposed to the \$300 million supplemental in the current year because it assumed most of the spending was being corrected in the operating budget for FY 21. The LFD modeling assumed CBR earnings were from the fall Revenue Sources Book. The CBR deposit assumption was modified from DOR's assumption due to higher deposits received so far in FY 20. He added that the number was a bit higher than the fall forecast, but LFD believed it would be corrected in the spring forecast.

Mr. Painter relayed that the modeling scenarios assumed no inflation-proofing for four years due to intent language included with the \$4 billion transfer in FY 20. He elaborated that the intent language had specified it would serve as inflation proofing for eight years, but it had been attached to a \$9.4 billion transfer, which the governor had vetoed down to \$4 billion. The \$4 billion counted for roughly four years of inflation proofing. The House budget adopted by the House had included inflation proofing; however, the LFD modeling default assumptions ignored what had taken place and was based on the governor's budget.

Representative Carpenter asked about the \$4 billion transfer. He queried the balance of the ERA at the beginning and end of FY 20.

Mr. Painter responded that he did not have the numbers immediately available. He noted the question would be easier to address during the modeling.

Co-Chair Johnston asked what inflation assumption was used in the presentation.

Mr. Painter replied that LFD used the rate 2.25 percent forecast by the state's investment advisor Callan. He noted the figure may be a bit high in the near-term and a bit low in the long-term. He added that LFD had used the assumption for a number of years.

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Mr. Painter turned to an LFD model for the governor's amended budget on slide 6. He began with the upper left chart showing UGF revenue/budget from FY 19 to FY 29. The blue bars reflected traditional petroleum and non-petroleum revenue, green bars represented draws from the ERA according to some sort of statutory formula, the orange bars reflected draws from savings accounts like the CBR and Statutory Budget Reserve (SBR), the dotted line was the total budget, and the solid black line was the budget without PFDs. He explained that the governor's initial budget had been balanced out of the CBR at an oil price assumption of \$40. He highlighted that the orange bar did not quite meet the dotted total budget line, indicating the CBR would run out and there would need to be another deficit filler in the governor's FY 21 budget. The white space on the chart between the bars from FY 22 to FY 29 and the dotted total budget line reflected there was currently no planned way to meet the budget gap. The gap could be filled with the ERA or some other method, but LFD would not necessarily tell the legislature what the method needed to be.

Mr. Painter moved to the middle left chart showing the state's budget reserves on slide 6. The tiny yellow sliver in the FY 19 bar reflected the remainder of the SBR. The orange portion of the bars for FY 19 and FY 20 reflected the CBR, which ran out sometime in FY 21. The green bars showed the ERA. He noted that the ERA was not truly a budget reserve because there was a planned way the draw would be spent. For the purpose of the modeling, the ERA had been counted under budget reserves.

Mr. Painter addressed the table at the bottom left of slide 6 showing the underlying numbers used in some of the charts including the ERA balance, the surplus or deficit, the CBR and SBR balances, and the percentage of the budget coming from savings.

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Mr. Painter moved to the graph on the top right reflecting the PFD check going to Alaskans. The governor's budget included a PFD of about \$3,000 in FY 21.

Co-Chair Johnston asked for more detail. She referenced a five-year lookback and drawing from the ERA. She pointed to the charts on the top and middle left of slide 6. She was surprised the dividend continued to climb.

Mr. Painter answered that the scenario on slide 6 did not necessarily assume the ERA would be used to fill the deficit. The projection merely indicated what the dividend would be under current statute if extra funds were not drawn from the ERA. He noted that the funds would have to be drawn from somewhere to meet the \$2.5 billion deficit, presumably the funds would come from the ERA and could cost the dividend. He reiterated that the scenario on slide 6 did not assume any use of the ERA beyond the current statute.

Mr. Painter continued to review slide 6. He pointed to a chart showing the impact of ERA draws on POMV. He noted that the chart removed the five-year average. He explained that one of the challenges with the model was because there was a lagging five-year average for the POMV draw, a one-year draw from the ERA would not show up for several years, making it difficult to see the impact. Therefore, the chart removed the five-year average and showed the entire impact. For example, if \$1 billion was drawn from the ERA, it would reduce the POMV by 5 percent or \$50 million. If the deficit were filled by the ERA it would result in a decrease in the POMV to about \$2.7 billion instead of an increase to \$3.8 billion by FY 29. He concluded there would be a significant decline in the POMV draw if the deficit were filled with the ERA.

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Co-Chair Johnston surmised that the line representing the dividend check was not part of the model. She did not know how the dividends would be obtained.

Mr. Painter clarified that the model did not assume how the deficit would be filled. He explained that LFD did not want to assume the legislature would cut the dividend, draw from the ERA, or cut from education or any item in particular.

Co-Chair Johnston surmised that it was called "fairy dust."

Mr. Painter explained the scenario showed the system was broken.

Co-Chair Johnston could see a large disconnect and believed the chart showing the dividend check was built on fairy dust. She thought they should be looking at the lower two models on the right.

Representative Sullivan-Leonard asked about the FY 20 ERA numbers. She asked how LFD had arrived at the \$12.698 billion for the ERA.

Mr. Painter responded it was the total under the low scenario provided by APFC. The corporation's old projection for statutory net income for FY 20 would be the ending balance in the forecast.

Representative Sullivan-Leonard believed they had started with an ERA balance of \$18 billion and had subtracted approximately \$3 billion for POMV and another \$4.6 billion or \$5 billion for the corpus. She estimated the remaining balance at closer to \$10 billion. She would like to see the real numbers that would be used.

Mr. Painter answered that the difference was the incoming earnings for FY 21. He elaborated that even with a zero total return there would still be statutory net income entering the ERA. The ERA would still get income in FY 21 and already had, despite the negative total return in the scenario.

Representative Sullivan-Leonard asked Mr. Painter to follow up with the information. She believed the balance would be \$10 billion.

Mr. Painter answered that he would follow up.

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Co-Chair Johnston thought Mr. Painter had made an earlier statement that earnings were \$1.8 billion.

Mr. Painter clarified that he had not specified the earnings amount, which were 5.27 percent of the total fund

value. There was a stable \$1 billion to \$1.5 billion, but "they've already exceeded that for the fiscal year." He believed the total would be about \$3 billion, but he would have to switch to the dynamic model to determine the amount.

Ms. Pitney added there were four components including current value, draws, statutory net income (achieved when stock was sold), and unrealized loss that changed year to year.

Representative Sullivan-Leonard answered that she understood that.

Mr. Painter moved to a dynamic model that he clarified was not part of the presentation (copy not on file). He looked at FY 20 and noted that part of the difficulty was the difference between the cash balance and the total ERA balance. He pointed out that the ending FY 19 balance had been about \$18.5 billion. He elaborated that \$3.2 billion in statutory net income had come in and \$4.6 billion had been removed for inflation proofing and the POMV draw, resulting in a balance of \$12.7 billion after the allocation of unrealized gains. He had not planned to talk about the allocation of unrealized gains. He clarified that the cash balance of the ERA at the end of FY 18 had been \$16 billion, not \$18 billion. The other \$2.5 billion was comprised of unrealized gains that had to be allocated between the ERA and the principal (split up proportioned to the value). The ending FY 18 balance was \$18.5 billion. The cash balance was \$11.7 billion at the end of FY 20 and some of the unrealized gains were allocated to the ERA, which resulted in a balance of \$12.7 billion.

Mr. Painter explained that if they were sticking only to cash balances and ignoring the unrealized gains, which he believed was a much better way to look at it (but unfortunately it was not how the financial statements looked), the balance went from \$16 billion to \$11.7 billion. He clarified that total balances would be \$18.5 billion down to \$12.7 billion. He thought the difference between the cash versus the amount including the unrealized gains may be the source of confusion.

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Mr. Painter returned to slide 6 and reviewed a bar chart showing the Permanent Fund balance (second chart down on the right side of the slide). The chart compared the FY 20 total balance grown with inflation [to the scenario principal and scenario ERA]. He highlighted the drop from FY 19 to FY 20 and growth with inflation reflected by the red bars. The chart also included bars showing the fund principal and ERA. He noted that without any unplanned draws the Permanent Fund would nearly keep up with inflation - it was slightly below inflation due to poor earnings in FY 20.

Mr. Painter explained that the information in the middle of slide 6 included the data and assumptions driving the graphs. The variables would change with the different modeling scenarios presented. He noted that the highlighting should help to show anything that was changing between modeling. Anything that was not highlighted was reflective of the governor's budget, the default assumption used in the scenarios. The data showed a \$40 price of oil, the low FY 20 investment return in the Permanent Fund, and 7 percent going forward. The modeling used the POMV draw as specified in SB 26 and the statutory dividend calculation of 50 percent of statutory net income.

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Representative Wool looked at the graph showing the impact of ERA draws on POMV. He reasoned that it was an isolated graph because if it were implemented, the entire slide would change, including the graphs showing the Permanent Fund balance and UGF revenue/budget. He noted that all of the green bars reflecting POMV draws in the UGF revenue/budget chart would be significantly less because the ERA would be much smaller. He asked for verification that the graph showing the impact of ERA draws on the POMV was an isolated study.

Mr. Painter replied affirmatively. He elaborated that previously there had been an assumption the legislature would go into the ERA. He explained that LFD did not want to use an assumption that the legislature would break the law it passed the previous year. The chart was a way to show what the impact would be if the deficit were filled via funds from the ERA. He clarified it was not to suggest it was the only option or the option the legislature would select.

Representative Wool looked at the top right chart showing the dividend check at the statutory level and the top left showing the budget and revenue. He thought the two charts were inconsistent without more revenue.

Mr. Painter believed the point of any scenario showing the white space was to indicate that the scenario was not workable. The white space indicated there was a gap between revenue and the budget. He did not know that it would be the governor's plan, but it was the governor's budget with no other changes. The chart showed a gap beginning in the next fiscal year.

Mr. Painter highlighted that at \$40 oil, the budget less dividends line was above available revenue. He noted that even with no dividend there would still be a deficit with an oil price of \$40 through FY 29.

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Representative Carpenter looked at the top left chart on slide 6 and pointed to the black spending line. He asked what an annual 2.5 percent growth [in inflation] equaled in a dollar figure.

Mr. Painter answered that he did not recall the number off the top of his head. He noted that the 2.25 percent only applied to the agency operations and capital budget, not the statewide items including retirement payments. He explained it was roughly the \$4 billion in agency operations and capital budget combined that were moving at 2.25 percent (about \$50 million per year).

Mr. Painter moved to a modeling scenario on slide 7 reflecting HB 306 where 20 percent of the POMV draw went to the PFD and 80 percent went to the General Fund. While the deficit would be reduced under the scenario, a deficit of \$800 million remained in FY 21 after supplementals, which would grow to about \$1 billion after the POMV draw dropped down to 5 percent in the coming year. The CBR would extend through FY 22 (instead of FY 21), but it would be insufficient to get through FY 23 without other changes. The dividend started at just under \$1,000 and gradually increased to \$1,000 over the period shown.

Co-Chair Johnston remarked that the scenario looked much different than modeling the committee had seen at the beginning of session. She observed that it highlighted the volatility in revenue. Previously, the information had provided a glidepath for the CBR, albeit not a substantial one. She noted how quickly things had changed.

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Mr. Painter moved to slide 8 showing the same charts for HB 300 that included 15 percent of the POMV draw going to the dividend. The slide showed a \$300 million increase over the governor's budget reflecting a community dividend where 10 percent of the POMV would go to communities as well as a small increase to the University. The slide also showed 10 percent of the POMV draw going to the capital budget (about \$300 million versus the \$140 million in the governor's budget). He detailed that although the scenario had a lower dividend, due to spending increases the bill would result in a deficit in FY 21 of about \$1.1 billion rising to about \$1.3 billion and larger in future years. The scenario assumed that none of the community dividend was used to offset state expenditures. He intended to provide some examples that would work a little differently. He pointed to the dividend check chart on the upper right of the slide that matched information heard the previous day.

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Mr. Painter moved to slide 9 and provided a different model for HB 300. He detailed that the community dividend would be 5 percent of the POMV draw instead of 10 percent and the capital budget would be 5 percent of the draw instead of 10 percent. The scenario resulted in a budget change of \$150 million instead of \$300 million and a lower capital budget assumption as well. The scenario looked very similar to the other bill in terms of deficits of about \$800 million in FY 21 growing to about \$1 billion in FY 22 as the POMV draw reduced from 5.25 percent to 5 percent. He noted that the dividend number was essentially identical.

Representative Wool asked if there was a scenario that would address school bond debt reimbursement.

Mr. Painter turned to scenario 5 on slide 10 that assumed all of the budget increases were paid for by cost shifts

and not assuming where they would be (the assumption was no cost increase due to the bill). The scenario assumed the increased community amount would be used to reduce expenses elsewhere. The scenario showed a smaller deficit of about \$650 million in FY 21 and \$800 million in other years.

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Mr. Painter turned to slide 11 and addressed "Governor Scenario 5 (Balanced)." He detailed that the governor's 10-year plan published in December had included five scenarios. The balanced scenario included a mix of reduced spending, reduced spending growth, and some sort of tax that would raise \$500 million. He noted that he had used a sales tax in the model on slide 11, but it could be any tax (the type had not been specified in the governor's plan). The scenario also switched the PFD formula from being 50 percent of statutory net income to 50 percent of the POMV draw. He relayed that under the fall forecast assumptions the plan roughly balanced the budget. With reduced assumptions, the scenario would leave a deficit of about \$1.2 billion, which would decline over time due to the reduced spending growth rate based on the governor's spending cap included in the plan. The scenario assumed the growth would be about half inflation. He believed the governor's spending cap allowed for that amount of growth going forward.

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Ms. Pitney pointed to the bottom left of the slide and highlighted the red boxes indicating the depletion of the CBR and SBR. She relayed that under all of the model scenarios the longest the savings would last was through FY 22. She elaborated that the state's dependence on traditional savings in the SBR and CBR was over under the scenarios. When oil prices had crashed in 2014 there had been over \$15 billion in the two accounts. She relayed that at the time, they had been looking at plans that would run from 5 to 15 years. Whereas, currently they were looking at plans that were one to two years.

Co-Chair Johnston added that even under a scenario with a projected fund balance of \$65 million in the CBR in FY 22 and \$1 million in FY 23, there had been an understanding that cash management needed a minimum of \$500 million at any given time. She stated that the CBR would no longer be

available as a cash management fund. She thought they would need a legal opinion on whether the legislature could use the Permanent Fund in place of the CBR (even though in the Comprehensive Annual Financial Report (CAFR) the Permanent Fund was a fund balance).

Representative Sullivan-Leonard looked at "Governor Scenario 5 (Balanced)" on slide 11. She referenced the budget reductions of about \$500 million highlighted in yellow [in the middle of the slide] and the potential for a 3 percent sales tax also highlighted in yellow. She asked about the projected income for a sales tax.

Mr. Painter answered that LFD's assumption was \$500 million for a 3 percent sales tax, which was based on the fiscal note to a bill introduced by former Governor Bill Walker about four years back. He noted that Governor Dunleavy's plan did not specify what tax would be used, it had merely listed new revenue at \$500 million. He explained that because the sales tax happened to be the right amount, he had used it in the model. He noted that it could be an income tax, an industry tax, or some other source.

Representative Sullivan-Leonard asked for verification that with the additional revenue there would still be a \$1.2 billion deficit.

Mr. Painter replied in the affirmative. He elaborated that it was partly due to the delay in implementation and a tax. The model optimistically assumed that new revenue could be in place by January 1, which would result in half a year's revenue. He explained that the deficit in FY 22 would be reduced because of the full year of revenue.

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Vice-Chair Ortiz looked at the 3 percent sales tax generating \$500 million in the middle section of slide 11. He asked if LFD knew what time of year most of the revenue would be collected. He provided a hypothetical scenario where there was contemplation of a seasonal sales tax targeting the tourist season. He asked whether LFD had information indicating how much revenue would be generated based on more revenue coming in during the summer compared to winter.

Mr. Painter answered that he would have to work on some modeling. He shared that he had looked at studies of seasonal sales tax in the past and one of the big issues was whether local purchases could be timed around it or not. For example, sometimes in places with extreme seasonal sales taxes, people did not purchase cars in the summer and waited until fall. He noted there may still be an increase because in a normal year there were many tourists making purchases in Alaska. He believed the modeling would be complex and LFD would have to work with DOR to get an idea of the true impact.

Co-Chair Johnston thought modeling of a seasonal sales tax would have to show the kind of sales tax, the number of exemptions, and any cap.

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Representative Josephson referenced scenario 6 "Governor Scenario 5 (Balanced) on slide 11. He remarked that the growing deficit reflected oil price slumps, which would be more impactful in FY 21. He asked for verification that the drop off reflected half a year's sales tax receipts in FY 22.

Mr. Painter answered that the primary reason for the deficit increase from FY 20 to FY 21 was the dividend going from the \$1,600 paid in FY 20 to 50 percent of the POMV draw under the scenario on slide 11. There was also a revenue difference. The decrease from FY 21 to FY 22 was a result of the full implementation of the sales tax. The continued reduction was due to spending growing slower than inflation in the scenario. He detailed that because revenue roughly increased with inflation, it would cause the deficit to shrink over time.

Representative Wool looked at the black line representing the budget [less dividends] in the chart on the upper left side of slide 11. He referenced Mr. Painter's statement that the number would not increase with inflation. He asked what it would look like if there was an increase at half the rate of inflation. He remarked that the budget would increase slowly over time, but healthcare and Medicaid were increasing faster than some items. He asked for verification the increase would have to be offset by cuts to education, transportation, public safety, and more. He asked if cuts would be necessary to keep the low growth.

Ms. Pitney agreed. She detailed that for items growing faster than inflation, choices would have to be made to reduce or eliminate to keep the budget down.

Representative Wool surmised that based on what had occurred with the attempted budget cuts in the previous year, a slow growth budget scenario was easier said than done. He believed there would have to be some political will to have a low growth budget.

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Ms. Pitney answered that over the last five years there had been a 10 percent reduction. As the pressure to keep spending down had been significant over the past several years, there were things like the recent 7 percent salary increase for troopers that would take over any of the cost pressure push down. She elaborated that other things would pop up and in order to accommodate those things some services needed to be eliminated.

Representative Wool referenced the Alaska Marine Highway System (AMHS) and reasoned that if someone wanted to increase its functionality it would be an upward cost pressure that would need to be compensated for by a decrease in another area.

Ms. Pitney agreed.

Mr. Painter moved to slide 12 and highlighted a scenario titled "7. 50/50 of Statutory Net Income After Inflation-Proofing." He relayed that the current dividend statute calculated the 50 percent of statutory net income before inflation proofing, meaning inflation proofing came out of the government's share. The scenario would result in a similar dividend to the scenario on slide 11. He highlighted that the dividend tracked closely to current statute; it was slightly lower as the inflation proofing was borne by the dividend as well as by the General Fund. The scenario would result in deficits of about \$1.6 billion in FY 21 and rising in future years based on no changes to spending or anything else.

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Mr. Painter turned to slide 13 and reviewed a scenario showing a \$1,600 dividend with a progressive payment in lieu of taxes (PILT) where the dividend was reduced based on a recipient's income. He elaborated that based on the amounts given to him, the reduction projection was about \$400 million of the cost of a \$1,600 dividend. He explained that if there was a structure where a portion of the PFD would be held back for higher income recipients and a lower income person would receive most or all of their PFD, the cost of the dividend would be reduced by about 40 percent or \$400 million. Specifically, an individual would see a 20 percent reduction in their PFD starting at income between \$25,000 and \$50,000 and a person making up to \$100,000 or more would see an 80 percent reduction. The scenario showed a \$1,600 PFD, although many people would receive less. The scenario would result in a deficit of about \$850 million in FY 21, leveling out at about \$1 billion going forward.

Representative Merrick asked if children would receive the full \$1,600 PFD, assuming they were not working.

Mr. Painter confirmed that the scenario assumed children would receive the entire PFD unless they were a minor with a significant income.

Representative Josephson asked for verification that the dividend was income-based under the scenario [on slide 13].

Mr. Painter replied affirmatively. He elaborated that under the scenario people with low income and children would receive a higher dividend than people with higher incomes.

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Vice-Chair Ortiz asked what kind of administrative costs would be added to distributing the PFD if the change was made to the PFD program.

Mr. Painter replied that he did not know.

Vice-Chair Ortiz reasoned that added calculations would be necessary, meaning there would be some added costs at least in the short-term.

Mr. Painter responded that there would be some cost because presumably there would have to be some sort of document submitted that employees would check.

Co-Chair Johnston assumed the process would be similar to having a tax audit.

Representative Carpenter asked for verification that the modeling used a \$40 price of oil going forward. He asked if the projections assumed that \$40 oil would be the new norm.

Mr. Painter agreed.

Representative Wool referenced Mr. Painter's statement that a person earning over \$100,000 would get 20 percent of their PFD. He estimated the amount at \$320. He asked for verification that a person would still get \$320 if they earned \$100,000, \$200,000, or more.

Mr. Painter answered it was the assumption based on the scenarios LFD had been asked to prepare. He elaborated on Representative Carpenter's previous question. He explained that DOR had changed its methodology so that in the past fall it had taken the future's market value for the next fiscal year and increased it with inflation going forward. He explained that it did not necessarily have to be DOR's assumption, but the methodology had been used in its forecast. In order to replicate the data, LFD had used the same process in its models. He noted that the futures market grew a little faster than inflation and was projected to hit \$50 around the fall of FY 23. He highlighted that over the long-term, the assumption used in the modeling may be a more conservative than what the futures market would indicate. He reiterated that the modeling used the methodology in the fall forecast, which was LFD's best guess in the absence of a spring forecast.

[2:32:22 PM](#)

Ms. Pitney added that if oil prices went to \$50 per barrel in three years' time, the numbers would change only moderately by \$200 million to \$300 million.

Mr. Painter moved to scenario 9 on slide 14, which assumed all royalties except those dedicated to the Public School Trust Fund would go into the Permanent Fund rather than the current constitutional dedication of 25 percent plus 25 percent from newer oil fields. The scenario assumed the growth rate would be limited to half a percent and a budget reduction of about \$500 million phased in over two years.

The scenario kept a minimum CBR balance of \$1 billion and filled the deficit from the ERA. He noted it was the first scenario that filled the deficit from some method. The dividend formula would be 50 percent of royalties even though they were going to the General Fund - it would be an amount equal to 50 percent of royalties plus 10 percent of the earnings of the Permanent Fund. He noted that the slide showed 10 percent of statutory net income, but it was really 10 percent of the most recent year's earnings. It was functionally very similar to the average, but slightly different in the first year. The scenario resulted in a deficit of about \$1 billion that would decrease over time due to the lower spending growth rate.

[2:34:36 PM](#)

Co-Chair Johnston stated that the model reflected that currently a good majority of the state's royalties came from oil income. She surmised that the state's overall revenue picture would decline.

Mr. Painter answered in the affirmative. He detailed that UGF revenue would be reduced under the \$40 oil scenario, though slightly less than under the fall forecast.

Co-Chair Johnston asked if the difference was an additional draw from the ERA apart from the structured draw.

Mr. Painter agreed it was the assumption in the scenario [on slide 14]. He noted that the budget change would be a reduction of \$500 million phased in over two years (\$250 million in each year).

[2:35:59 PM](#)

Representative LeBon noted that at one time there had been consideration of a state income tax. He detailed that there had been a cost associated with setting up DOR to collect the tax. He asked how many DOR employees would need to be added and what the annual cost of collecting the tax would be.

Ms. Pitney answered that the latest figures were between \$8 million to \$12 million for the collection of a sales or income tax. She did not have a breakdown of the number of employees needed, but 50 to 60 percent of the cost would be

people costs. The remainder of the cost would be for contractual services and other support.

Representative LeBon considered the administrative costs of a PILT. He asked how much it would cost to administer a PFD where individuals making income above a certain level would receive no PFD. He questioned how the state would test individuals' income. He wondered if Alaskans would be asked to share income information or if it would be on the honor system subject to audit. He reasoned that with the goal of increasing income, a sales or income tax would cost the state more to administer than a PILT. He asked if the statement was fair.

Ms. Pitney replied that she did not have enough information to say that it would be significantly less expensive.

[2:38:17 PM](#)

Mr. Painter added that it would depend on the structure. He reasoned that a significant number of individuals would not file for the PFD if individuals above a certain income would not be eligible versus if they were eligible for at least some amount. He continued that it would also depend on how large the dividend was because it would determine how much incentive there would be for a person to prove their income was low enough.

Representative Josephson assumed a flat tax that did not require people to itemize and avoided complicated state schedules would be cheaper and easier to implement rather than an income tax with variable rates.

Mr. Painter responded that his recollection of hearings on HB 115 [2017 proposed income tax legislation] several years back confirmed the assumption made by Representative Josephson. He reasoned that using the federal tax as a basis made it simpler to administer - the state could piggyback on the Internal Revenue Service's work by basing the tax off of federal returns.

Representative Merrick asked if there was any data showing how much Alaskan Permanent Fund money went to the federal government in taxes.

Mr. Painter responded that the last real study he had seen was from the 1980s. He had been asked to provide an

estimation for the Permanent Fund Working Group and his best guess at the time had been about 15 percent based on current federal tax rates.

[2:40:32 PM](#)

Co-Chair Johnston looked at scenario 9 (slide 14) compared to scenario 2 (slide 7). She observed that the growth in the fund and the impact on the ERA draw were quite similar. She asked for verification that the significant difference between the two scenarios was the CBR.

Mr. Painter answered that essentially the difference was holding the \$1 billion in the CBR instead of the ERA. The requestor had asked to show how the deficit would be filled in one of the scenarios but not the other. The effect in the end was fairly similar based on the forecast - because the dividend would be based on oil revenue in part - it was a bit more sensitive to oil forecast.

Representative Josephson asked about the money being held in the ERA instead of the CBR in the former scenario. He asked if Mr. Painter was referring to the ERA overdraw.

Mr. Painter answered that the difference he had been referencing was whether \$1 billion was kept in the CBR or not. The difference was which account the \$1 billion would be in; the assumption did not assume there would be another \$1 billion in the system.

[2:42:39 PM](#)

Mr. Painter moved to scenario 10 on slide 15. The scenario allocated one-third of the POMV draw to the dividend. He believed the House version of SB 26 had called for the same dividend level used in scenario 10 and HB 115 had called for a tax. The scenario resulted in a PFD of about \$1,500 per year and left a deficit in FY 21 of about \$1.2 billion, rising to \$1.4 billion and \$1.5 billion in subsequent years. He relayed that the CBR would run out at the end of FY 22. He noted the small amount showing on the slide was an error.

Co-Chair Johnston asked to return to scenario 1 showing the governor's amended budget (slide 6). She took the information they had started with in terms of revenue sources for the current and next year. She noted that the

working group had used scenarios with a net dividend. She asked what the net dividend would be in the current year.

Mr. Painter responded that the dividend would be zero if the surplus was going to the dividend because in FY 21 going forward at \$40 oil, the size of the budget was greater than revenue even before paying a dividend.

[2:44:44 PM](#)

Representative Carpenter referred to scenario 9 (slide 14) and asked why the revenue in the upper left was much less than all of the other projections.

Mr. Painter answered that it was due to the portion of royalties being redirected from the General Fund to the Permanent Fund.

Representative Carpenter asked what happened to the Permanent Fund value in the long-term when \$1 billion was added.

Mr. Painter answered that he had a 20-year model of the Permanent Fund that was not part of the presentation. He reported that scenario 9 spent extra to meet the budget deficit, but in the absence of that extra spending it would result in inflation adjusted growth to the Permanent Fund. He elaborated that SB 26 did not lead to inflation adjusted growth in the Permanent Fund because the 5 percent POMV was essentially all of the real earnings projected. While the Permanent Fund seemed to grow in nominal terms, in real terms it was pretty level. He explained that adding the additional royalties would be a way to cause the Permanent Fund value to increase.

Representative Carpenter asked if any of the projections or models in the presentation counted for the \$1 billion in annual inflation proofing that would be needed.

Mr. Painter replied that the scenarios assumed no further inflation proofing for four years. For the projections beyond four years it was the reason the ERA balance was declining. He returned to scenario 2 (slide 7) and pointed out that the ERA increased and flattened out because the inflation proofing amount plus the POMV draw accounted for the entire annual earnings of the Permanent Fund.

2:47:20 PM

Co-Chair Johnston asked Mr. Painter to describe the difference between nominal and real.

Mr. Painter replied that nominal reflected dollars "as you see them" and real numbers were adjusted for inflation. He used \$1 billion as an example and detailed that when looking out 10 to 20 years when 2.25 percent growth was included it was a significantly larger amount for the same buying power. He explained that in real dollars, \$1 billion today was \$1 billion in FY 29, but in nominal dollars there would be a larger amount. He expounded that the budget line on slide 7 reflected nominal dollars and increased over time. He explained that in real terms, when accounting for inflation, the budget was flat because it grew with the rate of inflation.

Representative Josephson referenced the presentation from the previous day ["HB 306: A Path Forward" (copy on file)] and recalled that slide 16 had shown a balanced budget with an 80/20 [POMV split between government services and the PFD respectively] reform based on the fall forecast. He surmised that the primary difference was due to the effect of "the Russia and Saudi shenanigans" [that lead to a precipitous decline in oil price], the Coronavirus, and the downturn in stocks. He asked if that was the primary reason it was not possible to "have yesterday's presentation back."

Mr. Painter replied that one week earlier he had testified before the Senate Finance Committee that revenue would be down \$100 million to \$200 million. He explained that even at that time, revenue had been below the forecast, but not nearly as much as was projected in the current week. He agreed that the presentation from the previous day was based on the fall forecast, which had been made obsolete by activities in the past week.

Co-Chair Johnston asked for verification that the governor's budget was in deficit spending even with a net dividend.

Mr. Painter replied in the affirmative.

Co-Chair Johnston remarked that the state would still be drawing from the CBR. She asked Mr. Painter to include it in a model for the committee.

2:50:10 PM

Mr. Painter turned to the dynamic model and shared that he had initially referred to the scenario as the balanced budget dividend. He noted the scenario did not eliminate the Permanent Fund Dividend Division and maintained its budget. He noted "we do that out of our budget, not out of theirs." The scenario showed that with a zero dividend there was a continued deficit due to the supplemental. The scenario would show a balanced budget if there were no supplementals. He elaborated that the CBR value would increase over time because there would be earnings and deposits but no draws.

Co-Chair Johnston asked if there had ever been a year with no supplemental.

Mr. Painter answered that there had not been a year with no supplemental, but supplemental budgets had been very small in some years. He noted there had been a massive oil price crash in FY 15 and he believed the budget had ended up negative overall. He noted he would have to double check.

Co-Chair Johnston asked for the deficit shown on the dynamic model.

Mr. Painter replied that the dynamic model showed a zero deficit in FY 21.

Co-Chair Johnston asked for the FY 20 deficit under the scenario.

Mr. Painter responded that the FY 20 deficit was \$638 million based on the dividend paid the previous fall.

Co-Chair Johnston asked what the deficit would be if the supplemental was \$50 million.

Mr. Painter answered that the scenario would show a \$50 million deficit due to the supplemental because the information would not be known when calculating the dividend each year.

2:52:08 PM

Representative Josephson predicted there would be a significant CBR draw to pay a modest dividend. He asked if the danger in delaying serious revenue discussions to January was principally because of the need to stand up the new revenue generation systems. Alternatively, he wondered if there was something about a further draw on the CBR from \$2 billion to \$1.3 billion or \$1.4 billion that would be damaging. He noted his question assumed the legislature moved quickly to a revenue discussion in January.

Mr. Painter responded that the danger in delaying was there would be some time to set up, but it would mean only a half a year's revenue in the first year. He elaborated that if session ended with the expectation of a \$1 billion balance in the CBR and there was a tax proposed in the next year that would entirely fill the deficit, the deficit would only be half filled in the coming year. He explained that it would be necessary to leave a bit of a runway if the proposal was for a tax to fill the deficit.

Representative Wool returned to scenario 8 on slide 13 of the presentation. He looked at the budget curve (in the chart on the upper left of the slide) that dipped and went forward at the rate of inflation. He noted a \$400 million budget change and did not understand where it came from. He believed the scenario included a PFD that would differ based on a person's income. He thought it would mean a change in the PFD curve and not the budget curve. He reasoned there would still be spending on government services, but there would be a decrease in the PFD. He noted the budget line did not include dividends.

Mr. Painter agreed. He noted that for the sake of simplicity, the modeling assumed it would be a general budget change. He confirmed that the true impact would be a reduction to the dividend cost, not to the budget.

2:55:06 PM

Co-Chair Johnston requested an additional model.

Mr. Painter asked for clarification.

Co-Chair Johnston replied she was interested in the net dividend.

Mr. Painter answered that a more accurate way to show the modeling would be to stop paying the Permanent Fund Dividend Division and show a zero dividend. There would still be a deficit in that period. He would send the information to the committee.

Ms. Pitney added that with oil prices of \$40 per barrel there was no scenario without a deficit with any dividend or the current spending level. At an oil price of \$50 per barrel, the scenario was nearly the same. The deficit would be less, but it would still exist. She detailed that at the current spending level and with no dividend, the budget would not be balanced until oil prices reached the mid-\$50s.

Co-Chair Foster asked for the surplus amount in the governor's budget at current spending levels. He thought the surplus was around \$435 million, not including the PFD.

Mr. Painter answered that that Co-Chair Foster's statement was correct when using the fall forecast.

Co-Chair Foster believed that with the projection of oil at \$40 per barrel for FY 20 and FY 21, the state was looking at a shortfall. He noted that Ms. Pitney had shown one scenario where the shortfall could be as low as -\$300 million for FY 20 and -\$515 million for FY 21 for a total shortfall of \$815 million. He reasoned that factoring in a surplus of \$435 million combined with a revenue shortfall of \$815 million was another way of looking at the deficit.

Ms. Pitney added that under the governor's amended budget, the CBR would be completely depleted and funding would not be sufficient to get through the FY 21 period.

[2:58:01 PM](#)

Representative Josephson remarked that depressed oil prices would impact exploration development unless the companies' own expertise suggested a brighter future. He elaborated that the initiative would arguably solve some of the problems but could seriously depress exploration and production.

Ms. Pitney agreed that the two in combination did not bode well. She added that at oil prices of \$40 per barrel, an

increase to the minimum tax did not add a significant amount of money. She stated, "they're at the very bottom."

Representative Wool reasoned that the forecasts were a big part of the discussion. He remarked on the volatility - oil prices had been \$60 per barrel fairly recently and had declined to \$40. He recognized that low oil prices impacted production. He noted there could be a geopolitical event that increased the price again; it was his understanding that some of the decrease was a result of a political event and not only a result of the Coronavirus. He highlighted the complexity of the issue. He asked if the state was trying to be less responsive to the price of oil in making the budgetary projections or decisions. He wondered if it was advisable to look at the 10-year projections based on an unknown price. He remarked that experts were saying not to expect a big rise. He found it sobering to know that even without paying a dividend there was a deficit. He considered how to deal with the problem. He elaborated that the legislature had already stated it did not want to go into the ERA and he had not heard many people say they wanted a zero dividend. He stated the issue was a conundrum. He observed that the scenarios in the presentation were grim. He considered reducing the budget lower than inflation and could not imagine what that would do to the state's economy.

[3:01:24 PM](#)

Co-Chair Johnston noted it had been almost standard for geopolitical situations to increase the price of oil in the past. She highlighted a recent event in the Middle East that had increased the price of oil for two days only to result in a drop. She thought they needed to begin thinking of a new era and could not continue to think as they had in the past.

Representative Wool added that numerous investment banks were saying they did not want to invest in certain kinds of carbon extraction for political or environmental reasons. He believed it was also playing into the situation.

Co-Chair Johnston referenced one [oil] company heavily involved in Alaska had a breakeven point of \$40 per barrel.

Representative Josephson stated that traditionally the number bandied about in the 1980s and 1990s was that the

state was 90 percent dependent on oil. He highlighted that the number had been reduced to 40 percent, but it was still far too high.

[3:03:22 PM](#)

Ms. Pitney answered that under the old forecast the state had been 40 percent dependent on oil; the state was currently 30 percent dependent on oil. She detailed there were two main sources, each with their own volatility (oil was more volatile). She explained that price reductions were less problematic than they used to be. For example, in 2015 when prices had dropped, the forecast had gone from \$3.9 billion to \$1.6 billion in actual revenue. She noted there was not even \$1.6 billion in the actual forecast and revenue was dropping significantly below the number. She highlighted the volatility of oil and volatility of the markets. She detailed that the volatility was somewhat delayed, but the market was still volatile.

Ms. Pitney reported that oil had increased in 2008 when the market had crashed, whereas, the market had increased in 2014 when oil crashed. Currently, oil prices and the market were declining. Additionally, Coronavirus pressure was resulting in less demand and less transportation. She noted the supply and demand difference that was coming into play. She explained that both of the state's primary revenue streams were on the negative end at present, which the state had no control over. The state currently had very little of its revenue in its own control, which was another destabilizer to the state's budget. She considered how to have something in the state's revenue stream that followed the success in Alaska.

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Representative Wool considered that the state's revenue dependency on oil that had decreased from 90 to 30 percent. He remarked that if the decline continued it would not be good. He provided a scenario where Alaska became a state that received most of its revenue from a sovereign wealth fund. He highlighted a scenario with a zero dividend. He assumed the Permanent Fund would grow and therefore the POMV draw would grow as well. He considered that if oil waned, the state could live off savings and earnings, assuming the stock market did not do anything "hyper crazy"

over the course of time maintain a budget of a certain size.

Mr. Painter answered that it was growing with the rate of inflation; therefore, if the budget also grew at the rate of inflation, it was not possible to shift toward reliance on the POMV draw, unless the budget grew slower than the draw. Either the state would draw less than 5 percent or the budget was growing slower than inflation. The state could not grow increasingly dependent on POMV, it would essentially have to be the same percentage of the budget every year.

Representative Wool considered a scenario where the Permanent Fund grew at 6 or 7 percent and the POMV draw was 5 percent. He noted the remaining would account for inflation. He surmised that the 5 percent draw plus inflation was about the current growth, which is how the 5 percent had been selected.

Mr. Painter nodded affirmatively.

Representative Sullivan-Leonard asked which of the models presented offered the most security to reduce the deficit and offer revenue and CBR security.

Ms. Pitney replied that each of the models were major policy calls. She pointed to the dynamic model currently on the screen and noted it did not have a dividend and the CBR was not depleted for seven years. She explained it was a policy call versus a scenario where additional revenue was added or service cost reductions were made. She believed that following the governor's significant supplemental that had come in after reductions from the previous year, people were realizing that reductions were harder than what seemed to be the case. She noted there could be revenue or a change to the dividend. The security of the CBR left the state in a good position to ensure that the POMV continued to take the same proportion of the budget going forward as it did at present.

Ms. Pitney continued that protecting the value of the Permanent Fund so that it grew in real terms and could cover the same proportion of the budget in the future as it did at present was likely the biggest security question. Additionally, she considered what was prudent to expect in oil revenue. She asked if the state wanted to plan for \$50

or \$40. If the state planned conservatively on oil, she suggested taking advantage of the good years in oil price to make other policy calls develop other forms of revenue. Currently, the largest proportion of the budget was the POMV and protecting that revenue stream going forward was likely the most important consideration, followed by the associated policy calls.

[3:11:21 PM](#)

Representative Carpenter considered a previous statement about inflation and spending. He noted that in many of the scenarios, current revenue was not sufficient to meet the budget, meaning a tax or some additional revenue was needed to meet the spending level. He pointed out that the same would have to take place the following year and spending was growing at the rate of inflation. He considered what the increase in tax would have to be each year if the revenue problem were addressed by a new income or sales tax. For example, they could agree to a \$500 million tax in the current year, but it would be more than \$500 million each year going forward in order to keep up with the growth of government. He asked what that looked like on a graph.

Mr. Painter replied that LFD's assumptions assumed the tax rates grew with the rate of the economy (roughly the rate of inflation). He stated it may not be a reasonable assumption if the past few years saw a decrease in population. He noted it may not be a correct assumption, but it was the assumption that was used.

Representative Carpenter remarked that based on data he had seen he believed the economy had grown at about 1 percent from 2006 to 2016. He asked if it were fair to assume there would be a tax of any sort grow at 2.25 percent or greater if the economy was only growing at an average of 1 percent.

Mr. Painter believed it was a reasonable concern. He elaborated that LFD had used inflation as the growth rate for mostly everything. He recognized that it may be an overestimate of how quickly tax revenue may grow.

[3:13:29 PM](#)

Representative Carpenter asked what effect adding a \$500 million income or sales tax would have on the ability to produce within the economy. He stated that the private

sector would take some sort of hit. He knew Institute of Social and Economic Research (ISER) had published the numbers months back. He continued that the situation would start a spiral where taxes were increased to keep up with spending, yet the increase in taxes had a negative impact on the ability to produce wealth within the state through its economic engine. He highlighted that all of the scenarios projected that the spending level would continue to increase because government continued to increase. He stressed that the state had a population of 700,000 and only had an economy of a certain size. He emphasized that if the problem were solved through a tax, it would mean increasing the tax to keep up with the growth of government.

Representative Josephson imagined that if any governor of Alaska were to go the National Governor's Conference and tell the other governor's that Alaska had a real problem - that it had \$65 billion and it was trying to remain the only state that did not tax its people. He believed the other governors would walk away. He stressed that the state had the solutions.

Co-Chair Johnston noted that the discussions would be held. She did not want to drag LFD into policy discussions. She acknowledged that Representative Carpenter's point was a good one. She highlighted was necessary to keep in mind real cost versus nominal cost. The modeling had to account for something and had to include some inflation. She noted that the president had spent time trying to drive up inflation. There had been flat inflation after 2008 - she suggested there had been deflation since that time, which was not desirable. She remarked that the state did not want an economy of deflation because the economy would not grow. Currently, they were only modeling what they had. She suggested going ISER to look at the impact of different taxes. She stated that the easy days were gone.

HB 300 was HEARD and HELD in committee for further consideration.

HB 306 was HEARD and HELD in committee for further consideration.

Co-Chair Johnston reviewed the agenda for the following day. She provided amendment deadlines for multiple bills.

ADJOURNMENT

3:19:03 PM

The meeting was adjourned at 3:19 p.m.