

HOUSE FINANCE COMMITTEE  
ANCHORAGE LIO  
April 22, 2020  
10:01 a.m.

10:01:08 AM

[Note: meeting took place in the Anchorage LIO and was recorded from Juneau.]

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 10:01 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Representative Matt Claman; Senator Donald Olson.

PRESENT VIA TELECONFERENCE

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

SUMMARY

UPDATED FISCAL OUTLOOK AND DIRECT FEDERAL ASSISTANCE

Co-Chair Foster reviewed the agenda for the meeting. He asked Co-Chair Johnston if the Office of Management and Budget (OMB) would be providing an update.

Co-Chair Johnston indicated that the committee would be hearing from the Legislative Finance Division (LFD) and Legislative Legal Services first.

Co-Chair Foster asked members to hold their questions until the end of the presentation.

^UPDATED FISCAL OUTLOOK AND DIRECT FEDERAL ASSISTANCE

10:04:14 AM

PAT PITNEY, DIRECTOR, LEGISLATIVE FINANCE DIVISION, introduced herself.

ALEXEI PAINTER, ANALYST, LEGISLATIVE FINANCE DIVISION, introduced himself.

Co-Chair Foster asked where the public could find the presentation. Ms. Pitney replied that it was on the legislative website at the link to the House Finance meeting in the documents section.

Ms. Pitney began the PowerPoint Presentation: "State of Alaska Update on Fiscal Outlook," on slide 2. She reviewed the outline which included looking at the Spring Revenue Forecast, an updated fiscal summary, and any outstanding items that might arise. The presentation would also cover an outlook for FY 22, a longer-term outlook, and federal funding associated with the CARES Act. She would also discuss the revised program legislative (RPL) process at the end of the presentation. She would provide a short summary, as LFD had not had the opportunity to conduct an analysis on the topic.

Ms. Pitney turned to slide 3 to discuss the Spring Revenue Forecast. The spring forecast was received on April 6, 2020. It assumed an FY 20 average price per barrel of \$51.65 down from \$63.00 forecasted in the prior fall. The price estimate for FY 21 was \$37.00 per barrel. There were only minimal changes to the production forecast. She relayed that the spring forecast used the Permanent Fund's low scenario at the time, which was an ending balance of \$63 billion down from \$66 billion in the previous year. She

noted there were a few non-petroleum forecast updates. However, they were minor and not due to the quickly changing situation.

Ms. Pitney continued to slide 4 which showed the price comparison between the fall and spring forecasts. She reported that the price estimate of oil was forecasted to go down by \$20 per barrel in FY 22. However, production was down by only 4000 barrels versus 2000 barrels. The Legislative Finance Division believed that both the price estimates and the production estimates might be very optimistic, especially since the occurrence of events over the previous couple of days. She would address the issue in more detail shortly.

[10:08:21 AM](#)

Ms. Pitney turned to slide 5 which showed a comparison of revenues from fall to spring. She highlighted the third line, petroleum revenue, which was down \$693 million in FY 21. Projected petroleum revenues were \$600 million in FY 22. She explained that non-petroleum revenues were down in FY 21 by \$120 million, and in FY 22 they were down by \$90 million. The next category, percent of market value (POMV), was stable because it was using a lagging 5-year average of the Permanent Fund (PF) value. The state anticipated a reduction in the POMV revenue of \$47 million in FY 22 and \$98 million in FY 23. She suggested that if there was only one market reduction, it would equate to \$300 million, as it would phase on over time. She highlighted the total revenue difference of \$814.7 million which was less than anticipated in FY 21. In FY 22 the difference was \$741 million.

Ms. Pitney turned to slide 6: "Fall to Spring Forecast Comparison," showing a graph. She indicated that the red line represented the fall forecast and the yellow line represented the spring forecast. She highlighted that the current projected revenue and the out year projected revenue had dropped significantly. She reported that the state's expenses for FY 20 totaled \$5.8 billion in unrestricted general funds (UGF) and the FY 21 budget was forecasted at \$5.15 billion. She thought capital expenditures and supplemental expenditures could be greater in FY 21. The state's cost structure was above both the red and yellow lines. She anticipated a decrease in revenue in the amount of \$815 million in FY 21, and an annual decrease

of between \$650 million - \$750 million in revenue in the out years.

[10:12:14 AM](#)

Ms. Pitney continued to slide 7: "FY 12 - FY 22 Revenue Collapse," which showed the revenue picture of the previous 10 years. In FY 12 the state brought in approximately \$9.5 billion in traditional revenue. She noted that the blue section represented oil revenue and the red section represented the state's non-petroleum revenue. Non-petroleum revenues included alcohol tax, tobacco tax, motor fuel tax, Division of Motor Vehicle (DMV) fees, corporate income tax not associated with oil, tourism corporate income tax, and similar items. The red line had been relatively stable. However, the state had experienced a massive decline in oil revenue. The state's current total projected traditional revenue was \$1.5 billion down from \$9.5 billion.

Ms. Pitney indicated that the graph on slide 8 included the state's use of the PF earnings over the 10-year period. She noted that in FY 12 through FY 18 represented in green showed the amount of PF earnings spent on the Permanent Fund Dividend (PFD). She highlighted the purple section which showed the POMV revenue added to the state's previous traditional oil revenue and other revenue. Presently, total revenues were just over \$4 billion. She continued that of the \$4 billion, \$3.1 billion was the POMV draw from the PF earnings reserve account (ERA). The percent of market value draw from the ERA was currently the largest portion of the state's revenue. Oil Revenue provided less than a quarter of the necessary funding to meet the budget demand. Prior to FY 13 oil revenue met more than 100 percent of the state's budget requirement. Before FY 13 oil revenue met 80 percent to 95 percent of the state's budget. Currently, the traditional revenue stream was diminished. Price volatility and the drop in oil demand as a result of the Corona virus were conditions she thought the state would have to get used to.

[10:16:48 AM](#)

Ms. Pitney turned to slide 9: Spring Revenue Forecast (cont.)." She felt that the spring forecast, especially with the current volatility, could be very optimistic for both price and production. She also noted that the price

collapse which occurred earlier in the week was unprecedented. She invited Mr. Painter to provide an explanation of the sudden drop in the price of oil and the current oil environment.

Mr. Painter continued to the last bullet on slide 9. He explained that because of the direct impacts of COVID-19 on drilling activities and the low prices, some companies have announced reductions in investments and rigs not being used as they had previously. It would result in lost production in the short-term. The long-term impact would be more significant. It was unclear when the rigs would restart production. The spring forecast did not factor the loss of the rigs that were laid down. Normally the loss of investment might lead to additional revenue. However, because the price was so low, companies would be paying the minimum tax regardless. It would not result in additional revenue.

Mr. Painter continued to slide 10: "A Note on Extreme Low Oil Prices." He mentioned recent news headlines about oil prices going negative which was primarily driven by activity in the futures market. He furthered that the price was negative on paper; oil was not necessarily being traded for a negative value. The price returned to \$9 per barrel in the previous day. He thought there were a few things to keep in mind, even with oil at \$9 per barrel. He indicated that \$9 per barrel did not cover the cost of getting oil from the North Slope to market - the cost was just under \$10 per barrel. He furthered that oil at \$10 per barrel only covered transportation costs. At \$25 per barrel some of the large fields would just break even on operating expenditures. It was not enough to pay for capital expenditures. He reported that the break-even amount for all oil company spending was typically around \$40 per barrel in Alaska. He suggested that even at the forecasted price of \$37 per barrel, the companies were losing money.

Mr. Painter reported that in order to balance the FY 20 budget, the price of oil would need to be \$79 per barrel, and for the FY 21 budget the price of oil would need to be \$69 per barrel. He based his statement on the production levels listed in the spring forecast. If companies were to choose to make different investment decisions or choose to further throttle back production to support a higher price, it could result in less revenue even if prices recovered.

Representative Wool had a question.

Co-Chair Foster asked members to hold their questions until the end of the presentation.

[10:20:46 AM](#)

Ms. Pitney continued to slide 11 that showed an updated fiscal summary. The Legislative Finance Division had condensed its fiscal summary in the presentation. The short fiscal summary and the budget summary provided more detail and could be found on LFD's website. She indicated that the revenue picture for FY 21 was about \$4.5 billion. The budget that was passed by the legislature in the prior year was \$5.47 billion. During the course of the current session, there were supplemental appropriations of \$399 million passed for a total FY 20 spend of \$5.87 billion UGF. The state's draw from the constitutional budget reserve (CBR) and the statutory budget reserve (SBR) was \$1.3 billion. State revenue for FY 21 was anticipated to decrease. The amount from the spring forecast was probably optimistic at \$4.2 billion. The legislature passed \$5.1 billion in spending for FY 21. She reported that without any supplemental expenditures, the deficit draw would be approximately \$968 million. She concluded that the CBR, the tool previously used to make up deficits, would fall to a balance of zero.

[10:23:18 AM](#)

Ms. Pitney continued to slide 12: "Updated Fiscal Summary (cont.)." She relayed that the numbers shown had been revised following the receipt of the state's audited financial statements. The numbers reflected the ending balance for FY 19. The starting balance of the CBR was \$2.3 billion and deposits were estimated at \$268 million. The state drew \$1.14 billion from the CBR and \$172 million from the SBR. Combined, the accounts made up the deficit of \$1.3 billion. She reported that the CBR's ending balance in FY 20 was \$1.4 billion. She relayed that beginning in FY 21 the state would see a much smaller deposit in earnings. The state would have a draw from the CBR of \$968 million in FY 21. There would not be a draw out of the SBR in FY 21, as the balance of the account was depleted in the previous year. In FY 21 the balance of the CBR would be \$537 million. She noted that the CBR starting balance for FY 20 was \$2.2 billion which included \$464 million in

short-term borrowing dollars. It was money held in the general fund and used for the state's short-term cash flow needs.

Ms. Pitney conveyed that during the budgeting process the CBR was the state's main cash flow tool. She reported about \$500 million had been used consistently every year for to meet the states cash flow demand. By the end of FY 21 the balance of the CBR (minus the cash flow amount) would be \$72.5 million. Essentially, except for cash flow borrowing, the account would be empty. The legislature would need to figure out another mechanism for cash flow borrowing which she would discuss further into the presentation. She noted that the governor's fiscal summary showed a \$61.5 million at the end of FY 21. The Legislative Finance Division reconciled with the Office of Management and Budget (OMB). Accounting for the short-term cash flow borrowing and a few adjustments, both entities agreed on the \$72.5 million figure. She elaborated that there were some miscellaneous offsetting adjustments having to do with revenue carry-forward and cost changes. She confirmed that \$72.5 million corresponded with the amount OMB would reflect in future fiscal summaries. She reposed the question of how to account for short-term borrowing.

[10:26:58 AM](#)

Ms. Pitney moved to slide 13 showing outstanding items. She reported there were spending items in FY 21 that might not have been considered. The legislature passed an incomplete capital budget. The request included \$172 million for projects that were not included in HB 205 [the FY 21 operating budget]. She reported that of the \$172 million, \$35 million was associated with UGF projects. There were things such as deferred maintenance and construction and major maintenance that were not included. She also mentioned the fire suppression funding as a result of the fires from the prior year. She also anticipated some COVID-19 related spending. Fire suppression and COVID-19 related spending would end up in the supplemental budget bill in January 2021. Another amount that was not funded was \$55 million for tax credit debt service. If the legislature was following the formula set in statute the amount would be more than \$100 million. Additionally, the governor vetoed \$210 million UGF, most of which was meant for Alaskan communities. She thought that federal funding

might cover the costs but would be a one-time fix. The costs would reappear in FY 22.

[10:29:17 AM](#)

Ms. Pitney turned to the outlook for FY 22 on slide 14. She reported that the CBR would be functionally empty after FY 21 if the legislature wanted to continue using it as a cash flow mechanism. If the legislature did not use it, it would not have a sufficient balance to cover an entire year. She indicated that cash flow reserves could be made up with funds other than from the CBR. She suggested that other designated funds could be used as the state's primary borrowing mechanism. Revenue anticipation notes could also be used and were not uncommon. Regardless, the legislature had to figure out the state's cash flow. She reported that the most funding the state would have at the end of the fiscal year was \$500 million if there were no supplemental expenditures. She noted the optimism of the spring forecast and noted the CBR could be empty before the end of FY 21. She relayed that with oil tax credits and community assistance it would be very difficult to keep the FY 22 budget at its current level for FY 21.

Ms. Pitney continued reviewing the outlook for FY 22 on slide 15. She suggested that if the FY 22 budget was left flat using the FY 21 numbers plus 50 percent of the school debt reimbursement, the state would have a \$300 million deficit before paying a PFD. If the state paid a \$1000 PFD, the FY 22 deficit would be approximately \$1 billion. If the legislature were to pay a statutory PFD, the budget deficit would be \$2.4 billion. She emphasized that the state would have to look at structural budget reductions and consider new and diversified revenue sources. She remarked that overdrawing the PF ERA would have a cost. She reminded members that although the ERA had a balance, the state was already using more than \$3 billion every year from the account. She cited that for every \$1 billion depleted beyond the statutory draw, the POMV dropped \$50 million annually forever. She encouraged members to consider that the POMV draw made up more than 60 percent of the state's annual revenue stream. Overdrawing the ERA had the significant consequence of compromising the annual \$3 billion revenue stream into the future.

[10:33:14 AM](#)

Ms. Pitney moved to slide 16 regarding a longer-term outlook. She indicated it was difficult to look out several years because of all of the uncertainties around the effects of the COVID-19 crisis. She thought legislators should be more focused on other revenue streams to help address the state's current issues. She encouraged the legislature to consider limiting expenses and looking for new and diversified revenue streams. She also noted that changing the dividend formula would not be enough to close the structural budget gap. The state had statutes for expenditures and for revenue. The number of statutes that drove expenditures well exceeded the statutes for revenue. She reiterated the importance of addressing the statutory deficit to reach a structurally balanced budget in the near-term.

[10:35:49 AM](#)

Ms. Pitney moved to slide 17 to discussed the federal CARES Act funding. She reported that another federal funding bill was recently passed that would accommodate an additional \$500 million. Previously, the funding had been given to tribes and to the state. The state had received \$124 million for airports and \$16 million for healthcare. The stimulus checks were starting to arrive in Alaska. The state had received \$992 million in federal funding for the paycheck protection program. She indicated that Medicaid funding had increased with an increase of 6 percentage points to the federal medical assistance percentages (FMAP). The federal government was increasing its match to the state's Medicaid which equated to reducing a portion of the state's match. The state had also received some public health funding. There were smaller pockets of funding such as the Community Development Block Grant and the Community Services Development Block Grant for about \$2.8 million.

Ms. Pitney reported that on the previous day the governor submitted a request for CARES Act funding in the amount of \$1.25 billion which included \$562 million for direct municipal relief, \$300 million for small businesses, \$50 million for non-profits, and \$337 million for Public Health. She reported there were other funding requests including \$48 million for education (most of which was pass-through school formula funding), child nutrition, and the National Endowment for the Arts. There were federal transit grants in the amount of \$29 million and federal aviation grants. She relayed that \$100 million of the \$1.25

billion in CARES Act funding was for fisheries. The governor had also requested a grant from the U.S. Department of Justice in the amount of \$3.6 million out of a \$850 million nationwide grant program. She reported that the University of Alaska would receive approximately \$7.9 million. The University only had receipt authority for a portion of the funding but was requesting the remaining receipt authority of \$50 million. There was other money coming into the international airport system in the amount of \$32 million.

Ms. Pitney continued that the state had receipt authority in the area of Unemployment Insurance (UI). The insurance payments were moving out to unemployed workers presently. Many of the programs associated with the governor's funding request did not have federal receipt authority. In the past, many of the governor's requests had required an appropriation rather than an RPL. She explained that the Legislative Budget and Audit Committee was an interim committee. Since the legislature remained in session, she argued that an appropriation bill was a more suitable path to getting funding out to communities. She concluded her presentation and was available for questions.

[10:41:41 AM](#)

Co-Chair Foster noted that the governor had submitted his plan for spending the \$1.25 billion via the RPL process. The legislature would be reaching out to OMB to request a summary of the plan. He noted that Speaker Edgmon was in attendance online, and Senator Olson was in the audience at the Anchorage Legislative Information Office.

Representative Wool asked about the projection for FY 22. Ms. Pitney responded that the projected price of oil for FY 22 was \$41 per barrel. Representative Wool noted that the non-petroleum revenue had stayed constant since FY 12.

Co-Chair Johnston referred to slide 12. Ms. Pitney stated that \$465 million would be needed for cash flow purposes. She wondered if the amount would be enough. Ms. Pitney responded that she would be guessing. She would have a better idea once the financial statements were released sometime in the fall.

[10:45:58 AM](#)

Co-Chair Johnston referred to slide 14 regarding cash flow. She conveyed that the Federal Reserve stated it would back past anticipation notes at a zero percent interest rate because the municipal bond market was in disarray. She was concerned about what revenue would be associated with the state's revenue anticipation notes. She suggested that the bulk of the state's revenue came from the PF. She was unsure that the state would be able to do revenue anticipation notes. Ms. Pitney indicated that whether it was revenue anticipation notes or any other debt instrument, with Alaska's structural budget deficit driven by a number of statutes, the state was in a true structural imbalance. She reported that Alaska's credit rating had been downgraded again in the prior week which would result in the state paying higher interest rates.

Co-Chair Johnston was concerned that even if the state was willing to pay a premium for debt service, the state's revenue structure was currently very weak.

[10:48:37 AM](#)

Representative Josephson referred to slide 5 regarding POMV revenue. He had heard that the state should expect a \$300 million reduction in the draw amount which was not reflected in the PowerPoint. He asked her to elaborate. Ms. Pitney pointed to the POMV revenue section on slide 5. The Legislative Finance Division was projecting the same in FY 21 reflecting a 5-year lagging average. The first year, with a drop in the market, reflected a change in the POMV value. In FY 22 there would be a \$47 million reduction. In FY 23 there would be a reduction of \$98 million. If the table was extended out, FY 24 would reflect a reduction of about \$120 million. By FY 27 the reduction would be about \$300 million.

Representative Josephson referred to slide 10. He thought the numbers were extremely variable. He referred to slide 13 which showed \$260 million in vetoes rather than \$210 million in vetoes. Ms. Pitney explained that the difference could be that only the vetoes from the operating budget [HB 205] were reflected in LFD's numbers. There were also vetoes in the supplemental budget [HB 234].

Representative Josephson posed a question about where the \$260 million of vetoed monies would reside if the vetoes were sustained. Ms. Pitney replied that the money would be

part of the balance of the CBR. She explained that the state was already drawing \$968 million to cover existing expenses which took the vetoes into account. It would affect the cash flow amount of the CBR.

[10:52:53 AM](#)

Representative Josephson mentioned that 474 people had died in the New York area. He mentioned the harsh effects of the historical Spanish Influenza in Alaska. He thought congress was being very generous. He noted that the governor intended to direct \$156 million in federal dollars to Anchorage. He did not think the government of Anchorage had experienced such a fiscal impact to-date. He wondered if the federal monies would be a windfall assuming the city kept its death and infection rates down. Ms. Pitney responded that the impacts of the health situation would be much different from the impacts economically. She thought there was an opportunity to mitigate the economic impact. It was up to the legislature to provide input in the distribution of funds.

Co-Chair Johnston mentioned the \$1.2 billion in federal funding. She reported that the governor had followed through with legislative intent to distribute 45 percent of the funds to communities. In the first phase of the CARES Act, communities with a population of 500,000 or more would be required to apply directly to the federal government. In turn, the federal government would be responsible for distributing funds to local communities directly. However, Alaska did not have any cities with a population of 500,000 or more. It would be up to the state to disburse and manage the funding. The governor had released his approach to the situation in the prior evening and confirmed that 45 percent of the funding would go to local communities.

Co-Chair Foster indicated the committee had been joined by Representative Matt Claman at the Anchorage LIO.

[10:57:15 AM](#)

Representative Carpenter referred to slide 10. He directed his question to Mr. Painter. He asked him what would happen when production was curtailed. He had it on very good authority that the state was days way from a slowdown in production. If the economy did not pick up nationwide to grow demand for fuel products, Alaska would be faced with a

complete shutdown within the following 90 days, as soon as June or July. The analysis by LFD was based on average values. If the price of oil dropped to zero, Alaska would still have an average of about \$46 per barrel. However, he wondered what would happen to the state's revenue when production was severely scaled back.

Mr. Painter replied that of petroleum revenue, only property tax would be relatively unaffected, as property values would not drop quickly. However, it would have a severe impact to the minimal production tax the state was still receiving as well as the royalty share. The low production scenario provided by the Department of Revenue (DOR) only went down to 416,000 barrels in FY 21, nowhere close to zero. He thought exploring what would happen in extreme scenarios was worth looking at. Presently, LFD did not have the data regarding what the precise impact might be.

Representative Carpenter indicated no one would have the data until it occurred, as it would be unprecedented. He suggested the potential of max capacity of all of the storage around the world. If his sources were correct, production would come to a halt due to not having capacity for storage. He thought the state should account for the possibility of a shutdown of production. Otherwise, he thought the numbers were simply "pie in the sky." He would be interested in seeing what revenues would be with a 50 percent reduction in through-put. He thought the scenario was plausible.

Representative Carpenter referred to slide 17. He asked Ms. Pitney about the \$465 million for short-term borrowing used for cash flow. He wondered if the money was automatically repaid as revenue flowed in or whether it had to be reappropriated in the following year. Ms. Pitney responded that if the CBR was not used, the state would have to borrow in the short-term or use another funding source. She indicated that the CBR should be paid back at the end of each year. However, the accounting was not trued-up at the end of the year. Technically, the \$460 million was available, but had consistently been used. Unless the money was replaced with a different short-term borrowing mechanism, it would need to be saved. A short-term borrowing mechanism, such as a revenue anticipation note, would require an appropriation.

[11:02:34 AM](#)

Representative Carpenter thought that the dollars the state would be using for cash flow would essentially be money spent at the end of the budget year, and a new appropriation would be necessary in the following year. Ms. Pitney concurred.

Co-Chair Foster asked Mr. Painter if he could provide some modeling. The point that Representative Carpenter had suggested was a good one. Mr. Painter explained that when getting to low production levels transportation costs would be spread over fewer barrels. It would be difficult to anticipate such numbers. He would work with DOR to provide some different scenarios to the committee.

Vice-Chair Ortiz referred to slide 6. He asked about the FY 21 budget of \$5.15 billion. He wondered if the figure included the governor's vetoes. Ms. Pitney indicated that the governor's vetoes were included, and if the vetoes were restored, the number would be higher.

Vice-Chair Ortiz asked about the education funding of \$30 million that was vetoed by the governor. He wondered if the CARES Act funding could be used to supplant the reduction in education funding. If it could be used, he asked if stipulations would be attached to the use of the monies. Ms. Pitney replied that \$38 million could be used for education stabilization based on the federal sideboards of the CARES Act. She confirmed that the governor was proposing to distribute \$38 million based on the foundation formula. She did not know if there were additional sideboards on the use of the funds once they reached the schools.

[11:06:56 AM](#)

Co-Chair Johnston had spoken with the Department of Education and Early Development. She indicated that the funding formula for the funds were tied to the Title 1 population. The department had been working diligently to get a number of exemptions for the purpose of the funds. One of the exemptions was related to broadband.

Representative Sullivan-Leonard referred to slide 15 and the flat budget for FY 22. She wondered what the oil price would have to be. She wanted to know what the budget would

look like with an average oil price of \$25 to \$30 per barrel. She wanted to know what the budget would look like with true numbers. Ms. Pitney responded that the spring forecast for FY 22 was based on an oil price of \$41 per barrel. If the price of oil dropped to \$25 to \$30 per barrel, the deficit would grow from \$300 million to between \$600 million and \$700 million.

Representative Sullivan-Leonard commented that she did not think the state was looking at a flat budget. She wanted to see additional modeling for a more realistic picture. She noted some economists were predicting \$20 per barrel. Ms. Pitney responded that she would provide additional modeling with lower production and lower pricing.

Representative Sullivan-Leonard hoped leadership could sit down and have a conversation about a true fiscal plan. The budget needed to be realistic moving forward.

11:11:25 AM

Representative Carpenter asked why a bill was more appropriate than the RPL process. He asked Ms. Pitney to comment. Ms. Pitney deferred to Megan Wallace of Legislative Legal Services. Currently RPLs did not have federal receipt authority. Representative Carpenter was curious where Ms. Pitney was getting her foundation.

Representative Wool asked Mr. Painter about oil taxes and an oil tax initiative. Mr. Painter had commented that at current prices, the state was at the minimum. Even for legacy fields, at current low prices, the initiative would not raise much revenue. He asked for clarification. Mr. Painter responded that the current minimum tax was 4 percent of gross. One of the provisions of the initiative would raise the minimum tax to 10 percent of gross. The forecast for production tax in FY 21 was \$122 million based on 4 percent gross. If the minimum tax was 10 percent of gross, the amount would increase to between \$250 million and \$300 million.

Representative Wool alluded to the comments made by Representative Sullivan-Leonard and Representative Carpenter. He noted that the state still had a reliable source of income, the Permanent Fund, thanks to Governor Jay Hammond. He thought the state's budget and revenue sources would have to be adjusted accordingly.

[11:15:14 AM](#)

Representative Carpenter understood that the RPL process had been used to expand Medicaid in 2015. He was curious if the situation was similar to the current situation. He asked if the state had had the authority to expand Medicaid. He queried the difference. Ms. Pitney suggested that Medicaid was traditionally a federally funded program. The RPL process was used in the interim through the Legislative Budget and Audit Committee.

Representative Carpenter thought it would be helpful to know which line items were associated with federal receipt authority. Ms. Pitney would provide the information.

Representative Josephson revisited Ms. Pitney's statement that if the state paid a PFD of \$1000 in FY 22, it would have a deficit of \$1 billion. He relayed a hypothetical scenario in which the Department of Corrections and the University of Alaska were eliminated. He thought that in the scenario the state would still have a \$300 million deficit. He asked if he was accurate. Ms. Pitney responded in the affirmative.

Co-Chair Johnston made a comment regarding the funds coming from the federal government. She thought the only time Alaska had a similar situation was during the Exxon Valdez Spill at which time 80 percent of the state's revenues were from federal funding. She suggested that the state look at how things were done at that time. She also remarked that legislators and the administration were concerned about getting the funds to communities and to the people of Alaska as quickly as possible. Times were stressful for everyone. She hoped OMB would be invited to explain the RPLs and the process.

Co-Chair Foster would investigate the possibility of a meeting with OMB or with LFD as an alternative. He thanked everyone for attending the meeting.

#

ADJOURNMENT

[11:20:34 AM](#)

The meeting was adjourned at 11:20 a.m.