

SENATE FINANCE COMMITTEE  
April 23, 2019  
9:01 a.m.

[9:01:17 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Natasha von Imhof, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Click Bishop  
Senator Lyman Hoffman  
Senator Peter Micciche  
Senator Donny Olson  
Senator Bill Wielechowski  
Senator David Wilson

MEMBERS ABSENT

Senator Mike Shower

ALSO PRESENT

David Teal, Director, Legislative Finance Division; Senator Cathy Giessel; Senator Mia Costello.

SUMMARY

^FISCAL PLAN REVIEW: LEGISLATIVE FINANCE DIVISION

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DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed the presentation, "Fiscal Plan Review" (copy on file). He stated that the presentation would outline the impact of the budget decisions. He quoted a tweet from the governor. He remarked that the fiscal model was intended to see the long-term impact of decisions. The presentation would provide screenshots of the model, rather than a live model. This would be an educational presentation. Mr. Teal looked at slide 2, "Where does Governor Dunleavy's plan

lead?" The slide was prepared by the Office of Management and Budget (OMB).

Co-Chair Stedman looked at slide 2, and felt that there should be a delineation of the source of the slide when it is posted for the public.

Mr. Teal agreed. He mistakenly assumed that the seal on the slide would indicate the source.

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Senator Micciche remarked that his constituents often referenced this slide. He felt that there should be a greater analysis of the slide, and why it could be difficult.

Mr. Teal agreed. He stated that there would be an analysis of the problem with the slide momentarily.

Mr. Teal addressed slide 3, "Scenario 1: The Governor's Plan." He looked at the line titled, "Transfers from\ (to) the CBR." He remarked that the budget did balance in FY 20, and had a small surplus. He stated that there was a projection for the next six years of draws from reserves, with it peaking at \$455 million. He noted that the deficits would decrease once the budget was balanced at the end of the forecast period.

Co-Chair Stedman wondered whether the numbers included the full statutory dividend .

Mr. Teal replied in the affirmative, and furthered that the governor's plan was also a revenue plan.

Co-Chair von Imhof noted that there were total available general funds. She remarked that the model required transfers from the CBR beginning in 2021.

Mr. Teal agreed.

Co-Chair von Imhof remarked that the model was not claiming to take money the savings or to be net neutral, because there was a draw of \$455 million in 2022.

Mr. Teal agreed.

Co-Chair von Imhof wondered if those numbers were reflected in slide 2.

Mr. Teal replied in the negative, but remarked that the difference between the points were \$5 billion. He stressed that the scale could not be seen very well within the graphic. He remarked that the governor's graphic representation of the ten-year plan should be consistent.

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Mr. Teal highlighted slide 4, "Status Quo Budgeting." He remarked that the slide was from OMB. He stated that the governor had referred to the House budget as "status quo budgeting", meaning that it was the same budget process with the same result. He felt that the slide did not represent the House nor Senate budget, and was a nebulous scenario. He did not know the assumptions within the graph. He felt that the governor had provided the scenario based on what he felt the state would be in, if a budget was adopted other than the governor's own plan.

Mr. Teal discussed slide 5, "The Governor's Plan." The slide showed a model from Legislative Finance Division (LFD) representing the governor's plan. He explained the parameters built into the model.

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Co-Chair Stedman remarked that there were some who had not seen the slide, and there were several slide with different scenarios. He asked for explicit descriptions of the intricacies of the slide.

Mr. Teal explained that the model used the Department of Revenue (DOR) Spring forecast for both oil prices and oil production. That was done, because DOR were the experts. He remarked that LFD could prepare scenarios with other price and production forecasts, but it often confused the issue. He stated that in order to compare various scenarios and decisions, there must be the same underlying assumptions.

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Co-Chair Stedman remarked that some committee members had questions.

Mr. Teal looked at the Permanent Fund Plan. He noted that SB 26 had been passed the session prior, which had a POMV payout from the Permanent Fund Earnings Reserve Account (ERA) to the general fund (GF). He stated that the amount of 5.25 percent was listed on the slide with a 5 percent draw after FY 21. He explained that one might think of it as approximately \$3 billion per year. He stated that the money would go to GF and to Permanent Fund Dividends (PFDs). He remarked that it would be an unspecified split. He stated that the dividend provision itself was the statutory provision, which was 50 percent of statutory earnings as defined by the Permanent Fund.

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Senator Micciche surmised that there was an effective rate of 1.5 percent. He assumed that a growth rate below inflation meant that it required cutting in perpetuity for everything in between the bill and actual inflation.

Mr. Teal agreed.

Senator Hoffman asked the reason for the one.

Mr. Teal replied that the one referred to the kind of inflation proofing. He explained that the inflation proofing mechanism was only covering inflation. He explained that there were several other models under Governor Walker that proposed a different kind of inflation proofing. He stated that it was a holdover from those models. It indicated that the legislature would be doing inflation proofing as the Permanent Fund had always functioned, within the statutory method.

Senator Hoffman noted that the amount for inflation proofing was slightly above \$900 million.

Mr. Teal replied that it was currently \$943 million.

Senator Hoffman wondered how the appropriation complied with SB 26. He asked why the \$943 million coming out of the 5.25 percent.

Mr. Teal replied that it did not come out of the \$943 million. He explained that the 5.25 percent payout limited

the ERA payout to GF. He stated that the inflation proofing statutes were not changed by SB 26.

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Senator Hoffman stressed that SB 26 stated that the 5.25 percent went to GF, but the inflation proofing did not go to GF, rather it bypassed GF and complied with SB 26 by directly depositing into the corpus.

Mr. Teal agreed.

Co-Chair Stedman asked for a walk through of the slide.

Mr. Teal displayed slide 6, "The Governor's Plan":

1. PFDs are \$3,000 or more every year.
2. Past-year dividends remove money from the ERA, and reduced earnings on the reduced balances mean we never quite recover (PF value falls behind inflation).
3. High dividends come at a price of large FY20 reductions in government services.
4. Deficits closely match numbers in the Governor's 10-year plan, reaching a maximum of 15 percent. A balanced budget is achieved by FY27.
5. The CBR remains healthy: the DGF infusion in FY20 covers deficits in later years.
6. The ERA stabilizes after paying past-year dividends. This is a strong sign of a viable scenario.

Mr. Teal reverted back to slide 5, and announced that he would skip slide 6.

Co-Chair Stedman queried the section he was referencing.

Mr. Teal stated that number 3 was the box in the upper left side. He stated that it showed UGF revenue in budget. He stressed that it was the revenue shown as bars. The blue was the traditional revenue, and the green was the payout from the POMV payout. He stated that, if there was a deficit, there would be an orange bar at the top. He stressed that the idea was the revenue always equals expenditures, and the slide showed the level of expenditures without dividends.

Mr. Teal looked at slide 7, "The Governor's Plan without Legislation." He noted that the slide showed the same dividends.

Co-Chair Stedman noted that slide 8 defined the numbers on slide 7.

Mr. Teal displayed slide 8, "The Governor's Plan without:"

1. Legislation that allows the State to retain oil and gas property tax revenue and
2. Transfers of the Power Cost Equalization Fund, Community Assistance Fund and Higher Education Endowment to the general fund

1. PFDs remain at \$3,000 or more every year.
2. Expenditures are the same, but lower revenue means bigger deficits.
3. Those deficits consume the CBR in just a few years and then begin eroding the ERA.
4. That further reduces the balance (and future earnings) of the PF, so the PF loses value to inflation.
5. The ERA is on a downward trajectory, which is not a good sign of a viable scenario.

Mr. Teal looked at slide 9, "House Budget (if Surplus is used for Dividends."

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Mr. Teal addressed slide 10, "The House Budget":

1. PFDs are substantially lower than under the Governor's plan—dipping below \$1,000 until oil tax credits are paid off, then climbing to \$1,500 or more.
2. Although there are no ad hoc draws from the ERA, the payout rate is a little too high to allow the PF balance to keep pace with inflation.
3. Lower dividends mean smaller reductions in government services.
4. Deficits vanish immediately and do not reappear.
5. The CBR balance grows—there are no draws from the CBR.
6. The ERA is stable. This is not a doomsday scenario.

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Co-Chair Stedman looked at the numbers for dividends. He remarked that the PFD would start at \$1000 and reduce to under \$800 and then stay around \$700 for several years.

Mr. Teal replied that the individual PFD checks were shown on the upper right side. The checks would reduce to just under \$1000 and then increase back to \$1500 or more and growing. He noted that in the lower right corner, it was not the amount of individual payments. The number referred to the millions of dollars, or rather the surplus.

Co-Chair Stedman looked at FY 22, and queried the low point for the dividend.

Mr. Teal stated that the lowest line was just under \$1000. He stated that, in FY 20, it was right around \$1200 dropping to \$1000, and then recovering again.

Senator Hoffman felt that the underlying theme of the House budget was that government "gets the first crack" at the \$3 billion, and anything remaining goes to the people.

Mr. Teal replied that it was an accurate assessment.

Co-Chair von Imhof felt that the scenario shows that the dividend was the eighteenth agency and competed for funding with the seventeen other agencies. She stressed that there were no new taxes. She pointed out the \$2 million reductions, and no money from any savings accounts.

Mr. Teal agreed.

Co-Chair von Imhof wondered how much was going toward the capital account.

Mr. Teal replied that the OMB ten-year plan had \$100 million. He stressed that the slide showed representations of snapshots of the model. He explained that he could easily change that number for the capital budget.

Co-Chair Stedman noted that the \$100 million capital budget would be match money to get federal highway and airport money, leaving nothing to build anything outside of federal assistance. He felt that the number was below a barebones capital budget.

[9:50:41 AM](#)

Senator Micciche felt that there were two ways to frame the discussion. He remarked that the governor's plan required new taxes to the communities.

Mr. Teal replied in the affirmative.

Senator Bishop noted that the two scenarios of a flat capital budget. He felt that there should be an additional piece of insurance.

Co-Chair von Imhof expressed concern about the settlement money going into the CBR, but hoped that there may be a time when there could be a deposit into the CBR. She commented that some states had an income tax, which caused citizens to pay attention to the growth of government. Alaska had the dividend, which provided the same impact. She noted that Alaskans were paying attention to the growth of government.

Co-Chair Stedman announced that Senator Wilson had been present since the call to order of the meeting.

Senator Hoffman noted that the House did not include a dividend in their operating budget.

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Senator Wielechowski noted that constituents felt that cutting the dividend could be considered a tax.

Co-Chair Stedman understood that consideration, and agreed to have that discussion with the tax experts.

Mr. Teal emphasized the comments from Senator Hoffman, about how the House had passed a budget without the dividend.

Mr. Teal highlighted slide 11, "How Well Does the House Budget Meet Governor Dunleavy's Guiding Principles?"

1. expenditures cannot exceed existing revenue;
2. the budget is built on core functions that impact a majority of Alaskans;
3. maintaining and protecting our reserves;

4. the budget does not take additional funds from Alaskans through taxes or the PFD;
5. it must be sustainable, predictable and affordable.

[10:00:47 AM](#)

Mr. Teal looked at slide 12, "Senate Budget (if Surplus is Used for Dividends." He remarked that the Senate spent approximately \$50 million on school debt reimbursement, because it proposed 100 percent reimbursement. He noted the slightly different starting point, and the governor had larger cuts to state agencies. The cuts were offset by the 100 percent debt reimbursement. He noted the \$20 million was associated with the reimbursement, because the formula for rural school construction was tied to the school debt.

Mr. Teal addressed slide 13, "Senate Budget (with a 50/50 dividend split)." He noted the endowment payout, and remarked that the dividend would be a split of the payout rather than the current formula.

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Co-Chair Stedman wondered whether there were changes in revenue.

Mr. Teal remarked that there were no changes in revenue and no reductions in expenditures.

Senator Micciche wondered whether it was painful to have 1.5 percent plugged into the growth rate in all the models.

Mr. Teal replied that it was hard to achieve, but the budget had been cut in recent years by a substantial amount. He felt that 1.5 percent was aggressive, but it must be done.

Senator Micciche remarked that budgets were often compared to households, and stressed that beating inflation in a household was impossible.

Mr. Teal agreed.

Co-Chair Stedman stressed that inflation eroded purchasing power, so it must be addressed. He remarked that the factor could be incorporated at a later date.

Mr. Teal stressed that each scenario would look worse with the higher expenditure growth.

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Senator Micciche stressed that over time one must consider household budgets as related to the state budget.

Co-Chair Stedman remarked that every citizen with a bank account understood inflation in their interest rate.

Senator Hoffman requested a presentation with the dividend frozen at \$1600 for the next four years, and then 50/50 split going into effect in 2024.

Co-Chair Stedman stated that LFD could provide that scenario in a meeting on Thursday.

Mr. Teal discussed slide 14, "Senate Budget (with a 75/25 dividend split)." He stated that the scenario was based on a budget with 25 percent of the payout going to dividends.

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Co-Chair Stedman noted the request from Senator Hoffman, and asked for the same scenario with the 25/75 split.

Co-Chair von Imhof asked for a higher capital number.

Co-Chair Stedman agreed, and asked that the higher number be \$250 million.

Senator Micciche remarked that it would be difficult to reach all the communities. He understood that there was no way to determine beyond ten years, so people were now looking at the LFD chart was difficult to follow. He requested an easier slide, like OMB.

Co-Chair Stedman agreed that there was much information on the chart.

Senator Olson wondered whether there was a significant difference if there was a one-third/two-third split.

Mr. Teal agreed to provide that information.

Senator Wielechowski requested a chart if the per barrel deductible oil tax credits were removed.

Co-Chair Stedman felt that would be difficult. He wondered if the request was for a removal of the per barrel credit in holding the tax rate constant at 30 percent.

Senator Wielechowski replied in the affirmative.

Co-Chair Stedman stated that LFD could provide that estimate.

Senator Hoffman stressed that the House and the Senate budgets did not deal with the dividend, and left it to be determined by a particular piece of legislation.

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Co-Chair Stedman stressed that the operating budget process was not complete.

Co-Chair von Imhof remarked that behind many of the numbers were behaviors.

Senator Olson stressed that there may be an adjustment in the split, so there could be a step down over a few years, which might allow for a more reasonable budget.

Co-Chair Stedman agreed that LFD could provide the multiple scenarios.

Co-Chair Stedman announced the schedule for the week.

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ADJOURNMENT

[10:28:34 AM](#)

The meeting was adjourned at 10:28 a.m.