

SENATE FINANCE COMMITTEE  
January 29, 2020  
9:00 a.m.

[9:00:57 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:00 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator David Wilson

ALSO PRESENT

Senator Cathy Giessel; Pat Pitney, Director, Legislative Finance Division; Lacey Sanders, Analyst, Legislative Finance Division; Alexei Painter, Analyst, Legislative Finance Division.

PRESENT VIA TELECONFERENCE

SUMMARY

LEGISLATIVE FINANCE - FY21 FISCAL OVERVIEW

Co-Chair Stedman informed that the committee would continue the financial review of the state's current financial situation. He explained that the Legislative Finance Division (LFD) was the non-partisan arm of the legislature. He asked the director to speak to her background and experience.

[9:03:54 AM](#)

Senator Olson introduced constituent Chuck Degnan in the gallery. Mr. Degnan's father was in the Alaska Territorial Legislature. Mr. Degnan himself was a past representative who had sat on the House Finance Committee. Mr. Degnan had encouraged Senator Olson to run for office.

^LEGISLATIVE FINANCE - FY21 FISCAL OVERVIEW

9:04:44 AM

PAT PITNEY, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed her background. She started her service career at the University, serving over 23 years in a variety of budget positions. She had worked as the director of Office of Management and Budget under Governor Walker. She was interested in the fiscal status of the state and was ready to contribute to solutions for the state.

Co-Chair Stedman noted that this was Ms. Pitney's third day on the job and all resources would be made available for her to move forward in her position.

9:06:06 AM

Ms. Pitney introduced her staff.

9:06:32 AM

Ms. Pitney shared the presentation, "Fiscal Overview," (copy on file).

Ms. Pitney addressed Slides 2 and 3, "Presentation Outline" and "Where have we been?":

- Where have we been?
- Last session
- Where are we now?
- Where are we going?
  
- Oil prices and UGF revenue began declining in FY13 and plummeted by FY15
- Traditional UGF revenue has declined from \$9.5B in FY12 to \$1.5B by FY16
- UGF budget has declined 44% - \$7.8B to \$4.4B
- Budget deficits have averaged \$2.6B

- Nearly half (44%) of the UGF Budget each year

[9:07:12 AM](#)

Ms. Pitney advanced to Slide 4, "Unrestricted General Fund Revenue/Budget History," which showed a line graph overlaid by a bar graph depicting, in nominal dollars, the state budget from 1976 to present, with revenue projections out to FY28. She noted that the graph did not contain the permanent fund dividend (PFD). She drew attention to the middle years from 2005 to 2012, when the state experienced tremendously high revenue. The orange bars showed the money put into savings, which had allowed the state to manage through the previous 7 years of income decline. She stressed the importance of the savings structures that had allowed for a cushion. She stressed that absent other actions, the CBR would be depleted by the middle of 2020.

Ms. Pitney continued to speak to Slide 4. She drew attention to the out-year revenue, indicated in green and purple on the chart. She said that the green represented normal oil fund revenue. The purple represented the funds provided by the percent of market value (POMV) from the permanent fund. She thought going forward, the funds could be more stable than in the past because of less volatility.

[9:09:41 AM](#)

Co-Chair Stedman wanted to point out that in years 2005 - 2012 it was notable that there were substantial capital budgets, relative to the past, but the savings component had been larger than the capital component. He also pointed out that in the late 1980s and 90s there had been "anemic" capital budgets, which had resulted in increased deferred maintenance. He mentioned the significant deferred maintenance started being addressed in 2005, when the major maintenance list for K-12 had been paid down. He detailed that the list the following year had exceeded the previous year, even though the K-12 maintenance had been paid down. He expected that the minimal capital budget of present would lead to similar increases in deferred maintenance.

[9:12:52 AM](#)

Ms. Pitney turned to Slide 5, "Unrestricted General Fund Revenue and Budget," which showed a line graph overlaid by a bar graph depicting revenue with the overlay of the

Permanent Fund Dividends (PFD) and including a narrowed timeline. She pointed out that in FY16 through FY18, only funding for the PFD had been used from the ERA, which was why the grey bar was smaller in those years. In 2019 it was possible to see the implementation of the POMV draw. She pointed out the FY19 and FY20 appropriations had exceeded available revenue, although significantly less than FY16 through FY18. She said that due to the provision proposed by the governor in FY21, the deficit line had grown to \$1.5 billion.

Co-Chair Stedman asked whether the PFD proposed in the governor's budget was the statutory PFD of approximately \$3,000.

Ms. Pitney answered in the affirmative.

Co-Chair Stedman asked whether the FY 20 PFD was approximately \$1600.

Ms. Pitney answered in the affirmative.

Co-Chair Stedman thought that the billion-dollar difference in the two budgets could be attributed to the PFD.

Ms. Pitney agreed.

Co-Chair Stedman thought it should be recognized that the current fiscal year's proposed budgeted PFD resulted in a significant deficit number on the slide.

[9:15:32 AM](#)

Ms. Pitney considered Slide 6, "End-of-Year Reserves Balances," which showed a bar graph that showed the SBR and the CBR. She pointed out that in FY13, there was just over \$16 billion in the two reserves. Under the proposed budget, without accounting for supplemental spending, the two accounts would drop to less than \$1 billion in FY 21; accounting for supplementals left less than \$500,000 in reserves. She stated that the current year's proposed deficit of \$1.5 billion would mean that the reserves would be completely exhausted by FY22, if no budgetary action was taken on the governor's proposed budget.

Co-Chair Stedman explained that the supplemental budget was implemented in the middle of the fiscal year to adjust the

current year's budget to make sure there were no unmet obligations and fix any oversights or errors. He used the example of forest fire funding and funding for Medicaid. He understood that it would not be prudent for the committee to ignore supplementals.

Ms. Pitney stated that the supplementals, especially for fire protection and Medicaid, was essentially money already spent. She said that ignoring the supplementals did not release the state from the obligation to pay.

Co-Chair Stedman referenced past discussion of supplementals and believed that the expenses should be considered when discussing year-to-year change. He warned the FY20 supplemental budget would be colossal.

[9:18:49 AM](#)

Ms. Pitney displayed Slide 7, "Last Session":

- Governor proposed \$980 million UGF Operating budget reduction
- Governor proposed \$992 million increase to PFDs
- Legislature accepted \$146 million of Governor's proposed Operating budget reductions
- Governor vetoed an additional \$205 million from the Operating budget
- Total Operating budget reduction from FY19 was \$351 million
- Legislature passed PFDs similar to FY19

Ms. Pitney added that the governor's proposed \$980 million reduction was made shortly after he took office. She calculated that the reduction from the previous year was closer to \$100 million.

[9:20:58 AM](#)

Ms. Pitney highlighted Slide 8, "Progression - FY19 to FY20 Budget," which showed a data table giving an example of the kind of reports available from LFD.

[9:21:32 AM](#)

LACEY SANDERS, ANALYST, LEGISLATIVE FINANCE DIVISION, spoke to Slide 13, "Major UGF Changes FY20 to FY21 Gov," which showed a data table depicting the major unrestricted

general fund changes from where the legislature left in FY20, compared to the governor's FY21 budget proposed changes. She walked through a high-level summary of proposed changes to some agencies.

Ms. Sanders addressed an approximately \$52 million increase to the Department of Corrections. The proposed increase consisted of \$17.8 million in funding for a contract to send prisoners out of state and did included a \$16.7 million reduction for the closure of the Palmer Correctional Center. The request included \$30 million associated with HB 49. Additionally, there was an increase \$21.3 million, which had been PCE funds but were replaced with UGF by the governor.

[9:23:31 AM](#)

Ms. Sanders addressed an overall reduction of \$20 million to the Department of Education and Early Development (DEED). She stated that the overall K-12 foundation formula funding was an increase of \$19 million, which was split between \$10 million UGF and \$9 million in Public School trust funds, not reflected on the graph. The one-time appropriation in FY20 of \$30 million was removed for FY21, there was also a reduction for the removal of Pre-K grant funding. She noted a change in Mount Edgecumbe School funding for \$4.6 million reflected a fund source change; the funding would be moved out of the agency's operating budget and into K-12 Foundation Program. She continued to the Department of Health and Social Services, which showed and overall increase of approximately \$134 million. She said that \$128 million was to restore reductions made in FY20 to Medicaid and included \$8.3 million for adult dental. She shared that there was an increase of \$7.4 million in adult public assistance associated with the maintenance of effort (MOE) calculation.

Ms. Sanders continued to address Slide 13. There was a \$5 million increase for Pioneer Homes, as well as an \$11.4 million fund source change from UGF to Marijuana Education Treatment (MET) funds. She continued to the Department of Public Safety, there was a \$12.8 million UGF increase that consisted of adding 36, full-time positions and \$10.3 million to increase trooper capacity. She related that there was an \$873,000 increase, with 7 positions, for the new Anchorage Emergency Communications Center, as well as

\$1 million for staffing needs to address the backlog in laboratory services.

[9:26:20 AM](#)

Ms. Sanders addressed the University of Alaska (UA) budget, which had a proposed reduction of \$25 million allocated as follows:

\$9 million for University of Anchorage  
\$13.75 million for University of Fairbanks  
\$1.75 million to Statewide Services

[9:26:59 AM](#)

Ms. Sanders explained that under Statewide Items the debt service was an overall UGF change of approximately \$15 million and consisted of two significant changes: \$10.6 million increase for general obligation bond payments, as well as a decrease of \$27 million due to the removal of the oil and gas tax credit bond debt services payments for FY20. The governor's proposed budget did not include funding for debt service payments of oil and gas tax credits for FY21. She shared that the issue would be explored in a future slide. She continued to state assistance to retirement, which reflected an increase of \$37.6 million; \$44.5 million increase for PERS, and a reduction of \$6.2 for TRS. She stated that total agency operations for state-wide increase was approximately \$178 million. The governor's budget proposed a full statutory dividend, resulting in an increase of \$865 million in FY20, resulting in a total budgetary change from last year's budget of over \$1 billion.

[9:28:41 AM](#)

Co-Chair von Imhof considered the proposed changes to DEED. She asked whether the one-time \$30 million in funding had been included in the FY20 budget.

Ms. Sanders stated there was a \$20 million appropriation in FY19, and a \$30 million appropriation in FY20. She continued that LFD considered the latter appropriation valid and would consider it in the numbers.

Co-Chair von Imhof understood that the legislature fully funded education the previous year, including the \$30 million, which the governor had not vetoed.

Ms. Sanders replied in the affirmative.

[9:29:44 AM](#)

Senator Olson asked about the changes to DPS and the 17 new positions.

Ms. Sanders stated that DPS was reflecting 36 new positions.

Senator Olson asked about the vacancy rates of troopers.

Ms. Sanders offered to provide the information later.

Senator Olson requested justification for the new position request.

Ms. Sanders understood that DPS was increasing its recruitment and needed additional funding to support more troopers.

[9:30:43 AM](#)

Co-Chair Stedman stated there would be a subcommittee discussion on the matter. He asked about the Anchorage Call Center and new positions at that facility. He hoped to gather further information from the department. Co-Chair Stedman asked LFD to return and update Slide 13, once the forthcoming supplemental budget was released. He hoped LFD could update the numbers with the addition of the expected supplemental numbers, with a focus on three-year trend cycles. He said that he hoped that the reductions that had been made to DHSS in the previous year's budget would be neutralized in the supplemental budget.

[9:33:09 AM](#)

Senator Hoffman asked about the \$30 million in one-time education funding. He lamented that the funds had not been disseminated, which had resulted in the administration arguing that the appropriation was illegal, which the court had disputed.

Ms. Sanders stated that the \$20 million was distributed to school districts before FY19 had ended. She understood that the \$30 million was still being held by the administration.

[9:34:12 AM](#)

Co-Chair Stedman requested the date of the dissemination of the \$20 million.

Ms. Sanders said she would provide the information to the committee.

[9:34:34 AM](#)

Ms. Pitney referenced Slide 14, "Tax Credit Payment Options," which showed a bar graph of tax credit options. She reiterated that there was no funding in the governor's budget for the tax credit payments. The graph provided two options. She noted there was an ongoing court case regarding the legality of bonding for tax credits. She explained that bonding for the tax credits (represented by the blue bar) was to take a cost neutral approach to stabilize the budget across years. The plan assumes a 15-year payback on the bonds, at approximately \$55 million, if the bonds were let, and the credit were paid through the bonds approved by the legislature on spring of 2018. The red bar showed \$166 million in obligation for FY21, if the bonds were not let, dropping to \$100 million over the next several years to \$20 million in FY28. She said that the question was still under litigation and should be resolved within the next 90 days.

[9:36:25 AM](#)

Co-Chair Stedman emphasized that the state did not have a payment for the tax credits in the FY20 budget.

Ms. Pitney clarified that in FY20 there was \$27 million appropriated, which would be enough to go through the bond purchasing process for FY20. She reiterated that for FY21 - the credits were not included in the governor's budget.

Co-Chair Stedman thought if the bonds were not followed through, the state would be significantly under the statutory payment calculation, with \$20 million already appropriated, and would have a large amount in the current

fiscal year that would have to be addressed through a supplemental budget.

Ms. Pitney believed the \$166 million considered both obligations.

[9:37:53 AM](#)

ALEXEI PAINTER, ANALYST, LEGISLATIVE FINANCE DIVISION, confirmed that that \$166 million was the statutory calculation for FY21, the calculation for FY20 would be \$135 million. He said that if the bonds did not proceed, the statutory number for FY20 would be \$135 million. He said that the \$127 million could be repurposed for that, but the existing appropriation had been specifically for debt service and not for purchase of tax credits.

Co-Chair Stedman stressed that there was an overall additional expense of \$115 million. He said that if the bond package was not supported by the court the \$115 million would be added to the supplemental budget. He warned that the FY20 supplemental budget could be as high as \$400 million. He said that the FY21 budget was \$166 million short for the obligation and he awaited direction from the court. He said that if the court upheld the bonds the debt services should be footnoted in the summary reports from OMB and LFD as an obligation because it impacted cash flow and would not disappear. When the bonds were issued - the state would be impacted. He stressed the importance that the legislature and the public be cognizant of the costs.

[9:41:11 AM](#)

Senator Wielechowski was sure the topic would be discussed at length. He thought there was a significant question as to how the tax credit payments were calculated. He said that the statute based the calculation on 10 or 15 percent of the production taxes; production taxes for 2020 were \$372.6 million, while the slide reflected a payment of \$166 million. He took issue with the way the credits were being calculated. He pointed out that the statute relating to paying the credits was a discretionary statute, and was not mandatory, in contrast to school debt bond reimbursement, which had recently been eradicated. He argued that picking and choosing which statutes to follow would prove to be problematic.

Co-Chair Stedman thought the point Senator Wielechowski had raised had been discussed at the table. There were differences of opinion in the legislature as to how to calculate the dividends: gross tax or net tax. He stressed that the legislature had the power to appropriate. He thought there may be an appropriation request if the bonds did not go forward.

[9:43:58 AM](#)

Co-Chair von Imhof recalled that in the previous administration there had been a proposal that included a discount to the state. She appreciated the graph on Slide 14. She thought the legislature could have flexibility moving forward.

[9:44:49 AM](#)

Ms. Pitney turned to Slide 15, "Short Fiscal Summary - FY20/FY21 Gov," which showed a data table, which was a simpler comparison of UGF and all other funds from FY20 to FY21.

Ms. Sanders addressed Slide 15. She noted a decrease of approximately \$150 million in general fund revenue between FY20 and FY21. She pointed to a slight increase to the POMV draw. There were miscellaneous adjustments to account for the carry-forward and royalties for a total overall revenue change of a decrease of \$100 million. She said that the appropriations had been broken down into the three largest categories: capital, operating, and permanent fund. She said that there was a \$178 million increase in the operating budget that consisted of both agency operations and statewide items. She stated that the capital budget was flat funded from the previous year and the overall increase to the PFD appropriation was \$865 million. She directed the committee to the bottom of the slide and noted that LFD provided in the fiscal summary to the committee a pre-transfer surplus/deficit, which allowed the committee to see where the state was prior to moving money from any other funds. She relayed that the state had a deficit of \$1.5 billion, compared to last year when the state had a deficit of \$364 million, which was paid for with \$172 from the SBR and \$140 million from direct appropriations from the CBR. She referred to the right-hand side of the slide, which showed reserve balances and reflected changes in savings.

[9:48:02 AM](#)

Co-Chair Stedman thought there would be a robust discussion at the table as to what account balance should be targeted for the CBR. He said that the SBR took a majority vote to access, while the CBR took a three-quarter vote of the legislature to access. He added that the CBR was the only fund that had an account balance of any significance. He believed that the committee would continue to struggle with what the CBR balance should be; anywhere from \$1 billion to \$2.5 billion. He stated that the committee would be seeking advice and recommendations on the issue moving forward.

[9:49:24 AM](#)

Co-Chair von Imhof looked at the ERA balance on Line 19 of the slide. She thought it was important to point out that the ERA balance related to the POMV draw. She said that if the ERA was depleted in excess of the 5 percent POMV, then the draw would decrease.

[9:50:09 AM](#)

Ms. Pitney asserted that a \$500 million draw, over 5 years, reduced the total POMV draw by \$150 million annually, in perpetuity.

[9:50:38 AM](#)

Senator Hoffman thought the presentation and the comments by Co-Chair von Imhof begged the question of additional revenues, which he thought needed to happen if the state wanted government as it presently existed. He pointed out that there was considerable debate about the size of the PFD. He thought that even with a reduced dividend the state would face deficit spending. He believed that if that state faced that fact that additional revenue was needed and that the CBR should not be depleted, serious discussions on substantial revenue measures should be had by the committee and the legislature as a whole.

[9:52:16 AM](#)

Senator Bishop referenced Co-Chair von Imhof's question and thought it was important not to overdraw the POMV. He supported Senator Hoffman's comments.

Co-Chair Stedman looked at Line 18 and the targeted balance of the CBR, which he understood did not consider the possibility of a substantial supplemental budget.

Ms. Pitney noted that the amount also did not consider any of the tax credit obligations.

Co-Chair Stedman requested LFD to create a slide that included the supplemental numbers, and a slide that illustrated the possible assumptions for the tax credit obligation.

Ms. Pitney informed that there was a forthcoming slide that would speak to the tax credit obligation.

[9:54:09 AM](#)

Ms. Pitney considered Slide 16, " Short Fiscal Summary - FY18/FY21 Gov," which looked at the UGF FY18 through FY21.

Ms. Sanders stated that the slide followed the same format as the previous slide but provided more information in terms of the historical look-back.

[9:54:55 AM](#)

Ms. Pitney displayed Slide 17, "Swoop Graph - UGF Only," which included all GF appropriations for FY 20 and FY 21. The main purpose of the graph was to show the magnitude of the PFD relative to other formula programs, and the impact of filling the deficit with program reductions. She noted that 17 agencies would have to be eliminated in order to balance the budget and pay the current PFD. If the deficit was filled by a reduction in the PFD, the resulting per person dividend would be approximately \$650.

[9:56:40 AM](#)

Co-Chair von Imhof reminded committee members that the capital budget was "anemic" and hoped that if any budget should increase it would be the capital budget. She stressed the importance of investing in community and providing jobs. She expressed concern for the size of the deferred maintenance backlog. She understood that the PFD was important but considered that the capital budget was equally important.

[9:57:47 AM](#)

Co-Chair Stedman noted that if the 17 agencies were removed it would include the Governor's Office and the Legislature. There would be no one to appropriate a PFD, or anything else; prisons would be empty, courts and police would not exist, oil and gas permits would not be issued, and fishing openings would shut down. He considered the fate of education and public assistance. He appreciated the magnitude graph.

[9:58:53 AM](#)

Senator Hoffman thought another way to look at the slide was potentially if the PFD was reduced to \$1600, the state would still be short. He reiterated that the state needed to look at additional revenues. He did not think the people of Alaska should be balancing the state's checkbook.

[9:59:48 AM](#)

Co-Chair von Imhof addressed the red bar, which depicted the FY 20 Management Plan. She thought that incorporating the supplemental into the graph would reflect the red and blue bars matching up. She warned that all revenue ideas had unforeseen consequences. She expressed concern about the economic repercussions of issuing any taxes.

[10:01:08 AM](#)

Senator Olson commented that there were other ways to raise revenues than an income tax.

[10:01:33 AM](#)

Co-Chair Stedman asked that the updated slide be included in the requested future supplemental presentation.

[10:01:43 AM](#)

Ms. Pitney highlighted Slide 18, "K-12 Aid to School Districts," which showed a bar graph that was a view of K-12 education funding since 2011. The funding was flat, and student enrollment had not increased significantly; a 1.3 percent growth rate over the past 10 years.

[10:02:34 AM](#)

Ms. Pitney looked at Slide 19, "K-12 Formula Funding, FY 88-FY 21," which was an inflation-adjusted view of education funding.

[10:03:04 AM](#)

Senator Bishop asked Ms. Pitney what multiplier was used for the inflation adjustment.

Ms. Pitney informed that the Anchorage consumer price index (CPI) had been used as a multiplier.

Co-Chair Stedman asked Ms. Pitney to bring the information to the committee.

[10:03:46 AM](#)

Ms. Pitney stated that she was highlighting large formula programs because they had not grown with inflation over the last 5 years.

[10:04:03 AM](#)

Ms. Pitney addressed Slide 20, "Medicaid Services Appropriation," which showed a bar graph showing funding for Medicaid Services, overlaid with enrollment figures. She said that from FY15 to FY21 there had been no real growth in the program. She noted the red line represented enrollment, with expansion; the purple line represented traditional enrollment. She pointed out the significant increase in the traditional Medicaid enrollees from FY15 to FY21, while the appropriation to the program has decreased. She pointed out the GF component and noted that the federal component comprised 65 percent of the total.

Co-Chair Stedman asked about enrollee numbers.

[10:05:31 AM](#)

Co-Chair von Imhof thought it was important to extrapolate for the next three to four years and believed that the Medicaid expansion population match would go down. She was curious about the effect of changing matching rates for various programs. She did not know if the matching rates were changing, but thought it was important to consider.

Co-Chair Stedman thought that the issue could be considered in subcommittee and brought back before the committee.

[10:06:50 AM](#)

Ms. Sanders stated that the traditional Medicaid enrollee projection for FY21 was 220,000; expansion consisted of 59,640, totaling 260,000 enrollees.

[10:07:26 AM](#)

Ms. Pitney advanced to Slide 21, "CBR Access and Headroom":

- Typically, CBR Access for balancing the budget has been limited to the bills passed that session
- However, restricting access to specific bills caused problems for any sort of Supplemental appropriations
- "CBR Headroom" is included to allow additional appropriations beyond the enacted acts up to a limit
- E.g. - for FY20 the limit is \$250 million

Ms. Pitney stated that in the appropriation bills, because the CBR required a three-quarters vote, there was typically an amount reserved for using the CBR in the appropriation year. The limit for this current year was \$250 million. She said that the headroom provided for supplementals to be passed on a simple majority vote. If the supplementals exceeded the headroom, a three-quarter vote would be required to access the CBR to pay for the supplementals.

[10:08:33 AM](#)

Ms. Pitney looked at Slide 22, "FY20 Supps and CBR Headroom," which showed a table depicting what LFD believed were the items that could of impact; the tax credit information was not included on the table. She drew attention to Line 22, which showed the CBR balance at \$487 million.

Ms. Pitney noted that the supplementals highlighted on the slide included \$146 million for DHSS, \$105 million for fire suppression and capital redistricting project. She pointed to school debt reimbursement, Regional Educational Attendance Area (REAA) funds, and community assistance programs totaling \$100 million. She stressed that the

picture was dire and warned of the impact the supplemental budget could have on the CBR.

Co-Chair Stedman queried the school debt and the REAA Fund on Line 13.

Ms. Pitney stated that the amount was included as a discussion item. If there was the desire to follow statute on those issues for FY20, the slide reflected the added cost.

Co-Chair Stedman understood that the line reflected full debt reimbursement for the current fiscal year.

Ms. Pitney responded in the affirmative.

Co-Chair Stedman stated that the line item had been part of the veto override issue in previous days.

Ms. Pitney replied in the affirmative.

Co-Chair Stedman asked about Community Assistance listed on Line 14 of the slide.

Ms. Pitney stated that in FY20 there had been no appropriation for community assistance. She related that the items had been listed for discussion purposes.

[10:12:21 AM](#)

Co-Chair Stedman stated that the numerics on the slide would be updated in the following two days when the supplemental budget was published. He understood that under the scenario reflected on the slide the CBR would drop to under \$500 million.

Ms. Pitney answered in the affirmative.

[10:13:00 AM](#)

Senator Bishop asked whether the school bond debt shown on Line 13 anticipated 100 percent payment.

Ms. Pitney stated that the slide reflected 100 percent payment.

[10:13:53 AM](#)

Senator Wielechowski asked about the \$6 million request for the Alaska Psychiatric Institute. He asked whether the state was still paying \$1 million per month for Wellpath.

Ms. Sanders shared that the Wellpath contract had been reduced to \$700 thousand per month.

[10:14:52 AM](#)

Ms. Pitney spoke to Slide 23, "Where are we going?"

- Status quo scenario presented to show the magnitude of the fiscal problem
- LFD policy neutral regarding method of addressing
- CBR empty in FY22 requiring ad hoc draws from ERA
- ERA empty by FY30
- Out-year deficits range from \$1.8 -\$2 billion each year

Ms. Pitney noted that the slide reflected where the state would be headed under the governor's proposed budget.

[10:15:19 AM](#)

Mr. Painter referenced Slide 24, "LFD Fiscal Model and Status Quo," which showed a snapshot from LFD's fiscal model that projected out ten years and showed the impact of the governor's budget. He noted that the revenue assumptions came from the revenue source book issued by the administration and were the official Department of Revenue assumptions. The governor's budget was run with inflation and a full statutory dividend. The model assumed \$250 million in supplementals for FY20, and \$50 million going forward - which had been the assumption used in previous years.

Mr. Painter drew attention to a graph on the top left, which showed the UGF revenue in the budget. The blue bars showed traditional revenue, the green showed the POMV draw, and the orange bars showed draws from savings accounts (SBR and CBR). The red bars showed additional draws from the Permanent Fund needed to balance the budget. He qualified that the LFD assumed in their modeling that when all the savings accounts were drained, in order to balance the budget, the ERA would be used because it is the largest account. He stated that the black line showed the budget

without the dividend; the dotted line included the dividend.

[10:17:52 AM](#)

Mr. Painter noted that the bottom left graph showed reserve balances, including the ERA. The orange bar showed the CBR balance under the proposed budget. The green bar showed the ERA balance, which despite unplanned draws stayed steady for a few years. He discussed inflation proofing.

[10:19:44 AM](#)

Co-Chair von Imhof looked at the graph on the upper left and noticed that the green bar peaked just above the black line, indicating a surplus just before paying a dividend.

Mr. Painter responded that if zero dividends were paid there would be a surplus for the entire charted period.

Co-Chair von Imhof surmised that all the graphs would change if a dividend were not paid out and that the overall financial picture would improve. She thought it was an interesting concept to ponder.

Co-Chair Stedman wanted to discuss the 'Budget Reserves' graph on the left-hand side. He asked whether it was safe to assume that if the state continued under the status quo the earnings reserve would be depleted by 2029.

Mr. Painter said that, based on the trends reflected on the slide, there would be no earnings reserve for FY30.

Co-Chair Stedman asked what would happen after the ERA was depleted.

Mr. Painter relayed that the state could begin drawing from other accounts but that the financial crisis would be compounded.

[10:22:05 AM](#)

Mr. Painter addressed the graph 'Dividend Check' on the upper right-hand side of the slide, which showed possible dividend amounts per recipient. The red line showed the status quo without unplanned draws and the purple line showed the status quo scenario with unplanned draws. He

pointed out that the two bars diverged, which was due to the unplanned draws reducing the value of the ERA. He spoke to the graph 'Permanent Fund,' which compare the FY20 total balance of the fund, growing with inflation. The purple showed the principal and the green showed the ERA. He noted that as the ERA vanished, the value of the fund would be unable to keep up with inflation.

Mr. Painter addressed the graph on the lower left, 'Payout for Dividends and General Fund,' which showed how much of the POMV payout would go to dividends in the general fund.

[10:23:51 AM](#)

Senator Wielechowski thought the model was interesting. He wondered whether it was possible to add the likelihood of a recession to the model. He estimated that it was highly likely to have a 20 percent to 30 percent drop in the following five years.

Mr. Painter thought the model described by Senator Wielechowski was too complex to release to the public but suggested that it could be made available to legislators. He said that additional investment return scenarios, based on actual historical periods, could be made available. He said that if a statutory dividend were to be paid, a short-term dip in earnings would reduce the budget deficit, even as it reduced the ERA. He said that negative earning scenarios sometimes showed odd interaction with the dividend calculation and the POMV draw.

Co-Chair Stedman stated that the Alaska Permanent Fund Corporation (APFC) would be before the committee in the following days and would help run additional scenarios involving different expectations of economic activity. Particularly, Senator Wielechowski's question about the sensitivity of the ERA and the dividend. He noted that the LFD model was linear, and life was not linear.

Co-Chair Stedman wanted LFD to provide additional information including upcoming supplemental numbers. He thought supplementals in the \$100 million range were not too uncommon. He requested a 5 to 10-year lookback at supplemental numbers.

[10:27:26 AM](#)

Ms. Pitney showed Slide 25, "QUESTIONS?" The slide showed the web address and options for subscribing to email notifications from LFD. She related that the committee's concerns had been noted and updates would be provided to members. She invited legislators to contact Mr. Painter to work with the model under various assumptions to clearly understand the drivers of the current fiscal situation.

Co-Chair Stedman asked whether the model on Slide 24 was held in-house at LFD and was not publicly disseminated.

Mr. Painter agreed that due to the complexity, and possible misinterpretation of the model, the model was not generally shared with the public.

Co-Chair Stedman recommended keeping the model in-house. He thanked the presenters for their work. He thought the forthcoming supplemental budget release would highlight the great difficulties the state had in controlling some of the economic drivers embedded within the operating budget.

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ADJOURNMENT

10:30:39 AM

The meeting was adjourned at 10:30 a.m.