

HOUSE FINANCE COMMITTEE  
March 2, 2021  
9:04 a.m.

9:04:08 AM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Kelly Merrick, Co-Chair  
Representative Dan Ortiz, Vice-Chair  
Representative Ben Carpenter  
Representative Bryce Edgmon  
Representative DeLena Johnson  
Representative Andy Josephson  
Representative Bart LeBon  
Representative Sara Rasmussen via teleconference  
Representative Steve Thompson  
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Alexei Painter, Director, Legislative Finance Division.

SUMMARY

HB 69        APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 69 was HEARD and HELD in committee for further consideration.

HB 71        APPROP: MENTAL HEALTH BUDGET

HB 71 was HEARD and HELD in committee for further consideration.

PRESENTATION: FY 22 GOVERNOR'S BUDGET AND AMENDMENTS BY THE OFFICE OF MANAGEMENT AND BUDGET

PRESENTATION: OVERVIEW OF THE GOVERNOR'S FY 22 BUDGET BY THE LEGISLATIVE FINANCE DIVISION

#hb69

#hb71

HOUSE BILL NO. 69

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

HOUSE BILL NO. 71

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

Co-Chair Foster reviewed the agenda for the meeting. He indicated the presentation was a continuation of the Office of Budget and Management overview of the governor's FY 22 budget and the governor's 10-year plan as well as amendments. The committee would also hear an overview of the FY 22 budget by the director of the Legislative Finance Division (LFD), Mr. Alexi Painter. He asked members to hold questions until the end of each presentation.

[9:06:04 AM](#)

^PRESENTATION: FY 22 GOVERNOR'S BUDGET AND AMENDMENTS BY THE OFFICE OF MANAGEMENT AND BUDGET

[9:06:09 AM](#)

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced himself and referred to the question posed in the previous day regarding the

schedule for opening the Palmer Correctional Facility. He reported that the Department of Transportation and Facilities Maintenance (DOT) was scheduled to complete their work in July 2021 with the Department of Corrections (DOC) taking over the facility in August 2021.

Mr. Steininger resumed the PowerPoint Presentation: "FY 22 Governor's Budget Overview and Amendments by the Office of Management and Budget," dated February 24, 2021 (copy on ns file). He began with the budget for the Department of Military and Veterans Affairs (DMVA) on slide 22. He highlighted an increase in FY 21 in the general fund (GF) line and the comparison between FY 19 and FY 22. There was a significant increase in unrestricted general funds (UGF) in DMVA. He explained that the reason was not due to a budget increment. Rather, it reflected the transfer of the State of Alaska Telecommunications System (SATS) and the Alaska Land Mobile Radio (ALMR) programs into DMVA from the Department of Administration (DOA).

Mr. Steininger continued that in moving the programs over to DMVA, the department looked at the services delivered and the management of the programs. The department would be combining them under one name, Alaska Public Communication Services. The name better aligned the services provided and the beneficiaries of those services. The primary users of the systems were the Alaska State Troopers, state police, and other emergency responders.

Mr. Steininger noted that the department had also eliminated some vacant positions including a budget analyst, a deputy director, a communications engineer, and a maintenance journeyman. The savings amounted to about \$280,000 UGF and a reduction in federal receipts associated with the positions. The department also made some reductions by looking at trends of prior years' spending, particularly on maintenance costs within the department, and finding other ways to achieve its goals while aligning the budget to historical spending.

[9:08:43 AM](#)

Mr. Steininger reviewed the budget for the Department of Natural Resources (DNR) on slide 23. He highlighted the steady decline in the budget since FY 15. Over the prior 3 years the department had seen a reduction of 17.4 percent or just over \$10 million UGF. He noted that in prior slides

for DNR, the Office of Management and Budget (OMB) had shown the numbers net of supplemental requests to give a true picture of the size of the department budgets. The Department of Natural Resources was slightly different because fire suppression costs were included in the budget. Fire suppression costs could be wildly different from year-to-year and were removed from the numbers for a clearer picture. In the current year, very little had been spent on fire suppression. The department believed it would have some excess fire suppression money at the end of the year in the normal baseline cost of fire suppression. The department would like to use some of the excess funding to support fuel mitigation and cut fire breaks for prevention purposes in the following year. Ideally, overtime it would reduce the need for fire suppression activity.

Mr. Steininger reported that the department also added \$250,000 in support of park ranger law enforcement. There had not been adequate funding to provide the necessary equipment for park rangers. The increment was necessary to support the activities they performed.

Mr. Steininger mentioned that in the Division of Oil and Gas and the Division of Mining and Water they had collected receipts greater than the amount they had spent over the previous several years. It appeared the same trend would continue into the future. It allowed the department to offset some UGF costs by utilizing those receipts. The amount OMB was projecting that should be sustainable over the long term, based on trends over the previous several years, was slightly over \$2.5 million in offset of GF fund costs. He reported there was also an adjustment to an increment from the prior year for plan review. As the department had been implementing the increment it found it had overestimated the costs needed. The department was able to reduce the prior year addition by \$100,000.

[9:12:00 AM](#)

Mr. Steininger advanced to slide 24 which showed the budget for the Department of Public Safety (DPS). The department had seen a steady increase in its budget over the previous several years, as the state had made strategic investments in public protection-related fields. An increase in the number of Alaska State Troopers had been a priority. In the current year the administration was not adding any new troopers. However, it was fully funding troopers added in

the prior year. In FY 21 several new troopers were added, but added at 75 percent funding as an acknowledgement of the department's lag in recruitment. At the time, the department knew it would not be able to recruit all of the troopers the first day of the fiscal year. Therefore, they had not needed the full funding. The increment brought levels to full funding of salaries and benefits since the recruitment phase.

Mr. Steininger relayed that there were a handful of adjustments in the department's budget in non-law enforcement areas having to do with support and back-office areas. The adjustments were related to positions that had been vacant for a significant amount of time, travel and commodity items that could be reduced, or other contractual savings. The savings was spread out through 6 or 7 budget components but added up to a savings of almost \$1 million UGF. The department was also eliminating 2 vacant building plan review positions that had been added in the recent year. The positions had not been filled, and DPS was looking at ways to satisfy the activity through other means.

Representative LeBon queried about the building plan positions. He had been in charge of the department's subcommittee budget over the previous 2 years. One of the concerns had been the delays in building plan approvals around the state through the Fire Marshall's office. Mr. Steininger had mentioned there was an effort to outsource the building plan reviews and approvals. He wondered if he was aware of whether the response times for building plan approvals had improved. He had heard of building plan approvals through the Fire Marshall's office taking 6 months. He asked for an update.

Mr. Steininger was aware of the issue of timeliness around building plan approvals. He did not have a statistical update but would follow-up with the department and the committee.

Representative LeBon would be asking the question of DPS when they presented to the subcommittee.

Vice-Chair Ortiz asked if someone from DPS was available online. Co-Chair Foster responded in the negative.

Representative Ortiz asked Mr. Steininger whether the numbers reflected the plan to consolidate trooper dispatch. Mr. Steininger did not believe the amount was reflected in the numbers, but he could get back to the committee.

[9:16:23 AM](#)

Mr. Steininger continued to the Department of Revenue (DOR)'s budget on slide 25. He pointed to the grey section of the graph which showed other funds, the overwhelming majority of spending for the department. It reflected management of state assets in the Treasury and the Alaska Permanent Fund Corporation (APFC). Most of the significant budget changes could be seen in other funds as well. While they were not a direct impact to state UGF, they had an impact to state finances in terms of reducing costs in managing the funds he had mentioned. For example, a \$10 million reduction to the Retirement Management Board investment management costs, although not reflected as a UGF savings, reduced costs in managing the retirement system. In turn it reduced the need for deposits into the retirement system over time.

Mr. Steininger continued that the department was also looking at restructuring how to pay for other investment management of smaller funds which had been paid with UGF. The department was proposing to move to the policy of charging the fund which was being managed for the cost of managing the fund. There was a \$1.4 million reduction in UGF costs with additions of that cost pointing to those funds being managed.

Mr. Steininger reported that the Child Support Division was looking to move its antiquated case management system on the state's mainframe to a web-based platform which would reduce the cost of system support and maintenance. The change would also provide the division with a measure as they worked towards a more robust, modern system that would tie in with other information technology (IT) systems used by DOR. There was a reduction in general fund costs and a corresponding request in the capital budget related to the new system.

Mr. Steininger continued that there were also 3 vacant positions within the department that had been vacant for a significant time and were being eliminated without any real impact to the workload.

Mr. Steininger indicated that APFC had moved to an incentive compensation plan for fund managers. He reported that the amount of \$890,000 was the maximum the corporation might need, but might not be the actual amount paid in incentive compensation.

Representative LeBon remarked that he had tried to put the incentive compensation plan in the budget in the prior year, but it was cut. He was happy to see it in the budget in the current year. The payment of a performance bonus was standard in the industry. The Alaska Permanent Fund Corporation Board of Trustees had been recommending the bonus incentive for some time. He explained that a bonus would only be paid for above average performance. Exceeding expectations created a cashflow to APFC that would self-fund the incentive compensation plan.

Representative Thompson concurred with comments made by the previous speaker.

[9:20:42 AM](#)

Representative Josephson asked about the capital request for the Child Support Division's case management system. Mr. Steininger believed the total project cost was between \$12 million and \$15 million. The cost of the system included a federal share along with the state's portion. The division also received certain garnishments through child support that would help to fund the state's portion of the project. By federal law these funds were due to the child support agency and not to individuals. He indicated DOR could provide a better explanation of the mechanics. The general fund costs for the new system were relatively low compared to the overall cost of the system. In the long run, it would help to achieve some budget savings in terms of the management system. One of the key components of the project was intertying the system with other areas of DOR.

Representative Josephson expressed concerned about foregoing \$864,000 in federal revenue. However, he thought Mr. Steininger had provided an understanding of both the efficiency and the need to achieve it in the outyears.

Representative Wool mentioned a presentation by DOR the previous day in the finance subcommittee that had a slide showing the returns on investment on the Alaska Retirement

Management Board (ARMB) comparing it to the Permanent Fund (PF). The slide showed that the ARMB slightly out-performed the PF in the 5-year average return. The Power Cost Equalization (PCE) Fund, which out-performed both the ARMB and the PF on the 5-year average return, had passive management.

[9:23:27 AM](#)

Mr. Steininger moved to the budget for the Department of Transportation and Public Facilities (DOT) on slide 26. He highlighted a significant change to the budget: the transfer of the remaining facilities management activities from the Department of Administration (DOA) to DOT. In the FY 22 budget and going forward all management of state facilities and leasing of facilities would be housed under DOT. The new level of workload required an additional division within the department. He indicated that the work of the new division, the Division of Facilities Services, used to be spread throughout the Maintenance and Operation Section within DOT. Having all of the activities under one roof would allow the state to have a better look at space utilization and space management.

Mr. Steininger continued that another large change made to the FY 22 budget for DOT was utilizing Coronavirus Aid, Relief, and Economic Security (CARES) Act funding to displace UGF. The CARES Act funding was related to the Federal Aviation Administration funding he discussed in his presentation in the preceding day. He reported that about \$14.6 million of the funding was available to offset UGF costs in FY 22 and to allow for the department to maintain activities. He noted that the CARES Act Funding was a temporary fix, and it was unlikely the funding would be available in the following year.

Mr. Steininger moved to the budget for the Alaska Marine Highway System (AMHS) which reflected baseline funding as proposed in the prior fiscal year. It represented a reduction of about \$3.6 million UGF. The department was still reviewing the AMHS reshaping study that was done in the prior summer to get a better idea of the future of the system and how to provide the best service to Southeast Alaska. He noted that the department had been impacted over the previous several years by shortfalls in motor fuel tax revenues. The budget reflected a shift of about \$500,000 in unrealized motor fuel tax to UGF in order for maintenance

activities to continue. He indicated DOT had been conducting maintenance on roads that were not state-owned and did not have any maintenance agreements in place. The administration was proposing to cease those maintenance activities until agreements were established.

Representative Thompson asked if the change in motor fuel tax revenues had to do with more electric cars on the road. He also wondered if a road fee for electric cars was being considered. Mr. Steininger responded that he did not know how much of the change in collections was a result of electric cars being on the road. The Department of Revenue or DOT might be able to address the representative's question. He was unsure of any potential legislation to address the issue.

[9:28:12 AM](#)

Representative Josephson mentioned HB 104 [Legislation introduced in 2021 regarding motor fuel tax and vehicle registration fees]. He pointed to the \$14.6 million UGF reduction. He asked whether, in the absence of Covid, the FY 19 to FY 22 change would be closer to a \$30 million UGF reduction. Mr. Steininger responded affirmatively.

Representative Josephson was confused by the use of the term, "The funding of essential service levels for the marine highway system." Many thought that AMHS' essential services level was not currently being met. He wondered how it could be met with less funding.

Mr. Steininger suggested a more robust conversation with DOT about providing the service. The Office of Management and Budget could help facilitate the discussion. There were many complexities in providing the service. He mentioned aging vessels, the impacts of Covid-19, and many other factors impacting current service. He noted the schedule was something that was looked at closely in the reshaping study. The hope was that by adjusting the schedule, it would increase ridership while meeting the basic needs of different communities. Ridership drove costs for the ferry system.

Representative Josephson noted that for the last several years the Legislature had taken an opposite approach supplementing the system as much as possible.

Co-Chair Foster indicated the finance subcommittee would be looking at the AMHS budget closely.

[9:31:56 AM](#)

Co-Chair Merrick referenced the elimination of maintenance of non-state-owned roads. She asked where the non-state-owned roads were located. Mr. Steininger responded that he would provide an answer in writing.

Representative Wool suggested that the total motor fuel tax was approximately \$40 million annually. He suggested that \$500,000 was one-eightieth or 1.5 percent of \$40 million. He asked about the \$50 million in the budget change summary listed under "Other." He wondered where the increase came from.

Mr. Steininger replied that the money represented the transfer of the facilities activities. The Public Building Fund, which managed most of the state's office buildings, was transferred into DOT and listed under "other." The funding came from lease payments by state agencies to pay for the maintenance of their buildings. The money appeared in the budget as a duplicated other fund.

Representative Wool suggested that DOT was increasing to include all public facilities. He asked if there might be a bifurcation of the department similar to what was being done with the Department of Health and Social Services (DHSS).

Mr. Steininger responded that the department's approach was to create another division within DOT that handled the responsibilities. Previously, the associated activities were baked into the regional budgets and was at a time when DOT managed its own facilities. Now that the department was managing facilities on behalf of others, it made more sense to have a separate division to carry out the related responsibilities. He did not believe the activity was enough to justify another department.

Vice-Chair Ortiz clarified that AMHS served Coastal Alaska, not just Southeast Alaska. He asked Mr. Steininger about any specific recommendations from the reshaping study group that were now being implemented. Mr. Steininger deferred to DOT. He could get a written response about what had been implemented since the study was conducted. The December

budget proposal came out shortly after the reshaping study. He supposed there had not been enough time to incorporate any recommended changes into the December budget.

[9:37:03 AM](#)

Representative Carpenter did not see any decrements of position control numbers (PCNs) in DOA's budget on slide 10. He thought a reduction should be listed. Mr. Steininger indicated that the positive number in DOA's budget was net of the amount going to DOT. The Department of Administration was also in the process of a procurement consolidation in which many positions were coming from other departments into DOA skewing the numbers.

Representative Johnson asked if road maintenance only applied to all state-owned roads or to just some of them. If the answer was only some of the roads, she wondered what process was used to select them. She also asked when the transfer of maintenance would take place. She thought there might be a significant impact on municipality budgets. She suggested providing notice.

Mr. Steininger replied that the intention was to capture any areas where a non-state-owned road was being maintained by DOT without an agreement in place. At the time when he put the list together in December, he believed it to be comprehensive. There might be some other roads that should be on the list. The lack of an agreement with the state was what he was trying to identify.

Representative Johnson asked Mr. Steininger what kind of timeline he was looking at. Mr. Steininger replied that the decrement would be effective on July 1, 2021 when the responsibility would shift. Until then, maintenance would continue through the winter.

[9:41:15 AM](#)

Mr. Steininger addressed the budget for the University of Alaska on slide 27. He noted the compact between the University and the administration to phase in reductions to the university system over time. Fiscal year 22 was the final year of the compact. The University would be moving to a non-profit entity and would no longer appear in the state budget.

Representative Josephson asked if the transition Mr. Steininger described was at the discretion of the University. Mr. Steininger confirmed that the recommendations came from the Board of Regents.

Mr. Steininger reported on the state's debt service on slide 28. Debt service was the payment of debt obligations primarily from prior General Obligation (GO) Bond issuances and also the School Bond Debt Program. The state had funded 50 percent of the statutory calculation for the School Bond Debt Program in FY 22 which was the same amount appropriated in FY 20. He relayed that in FY 21 the entire amount was vetoed. It was an increase from the prior year but flat funded from FY 20. The increase was offset by other reductions in debt service costs to the state. Some of the prior debt obligations were winding down. He pointed out the change from FY 21 to FY 22 reflecting a \$4 million increase, and the state had added \$12.5 million for school bond debt reimbursement.

Representative Josephson was confused by the combination of previous bond debt of a general nature with school bond debt which was an annual item. Mr. Steininger responded that the slide mirrored the structure in the budget report including all debt obligations of the state. Representative Josephson was correct that there were distinctly different flavors of state debt in the state budget. General Obligation (GO) Bond Debt was a constitutional form of debt, whereas, school bond debt was a statutory program. The state debt was co-mingled in the numbers.

[9:45:28 AM](#)

Representative Josephson noted that the people of Anchorage took on \$50 million in debt, and the state paid 70 percent in 2013 on their behalf. In the current year the state might pay 35 percent. He wondered if the other 35 percent was gone permanently. Mr. Steininger thought Representative Josephson was asking if in a future year the state could compensate a community for differences between the statutory obligation and what the state had paid in the past. He responded that nothing would restrict a community assistance distribution. However, the debt service payment was due from the community, the debtor, as it was their obligation. Although the assistance would not come in the form of a debt payment, another form of community assistance arrangement could be made.

Vice-Chair Ortiz mentioned the governor's bond package proposal to fund the capital budget. If the proposal was approved, he asked what the amount would be and when the state would see an impact to the debt service for FY 23.

Mr. Steininger suggested that once the bonds were issued, the service cost would be about \$22.8 million. There would be some staggering of bond issuance. In the first year the service cost could be less than \$22.8 million. The state debt manager had an estimate of the first year of debt service.

Vice-Chair Ortiz asked how long the state would be paying \$22.8 million per year. Mr. Steininger replied that it was a 20-year debt.

Representative LeBon mentioned the University of Alaska bond debt. He asked for the amount of annual debt service the University carried and the total amount of bond debt they were responsible for. Mr. Steininger would have to consult with the University and get back to the committee. Representative LeBon offered that the debt service was around \$25 million annually. Normally, the University asked for assistance for debt service in the capital budget. He was unsure of the University's total bond debt.

[9:49:29 AM](#)

Mr. Steininger continued to slide 29: "State Assistance to Retirement." He pointed to the striking spike in 2015 when the state made a large deposit into the retirement systems. He noted there had been a rising trend in the actuarial costs of retirement. The state made a one-time payment to offset it which significantly reduced the state assistance payments in the following years. He added that the state assistance payments had risen since then. However, in FY 22 the actuarial projection came down slightly from FY 21 to about \$342 million. There was separate legislation in play to change the way the state financed its portion of the retirement system payments. It would allow the state to access other fund sources to pay the state's portion that was currently paid with UGF.

Mr. Steininger highlighted a couple of other statewide items in the FY 22 operating budget. He noted that the community assistance program was funded based on a

statutory calculation of PCE earnings - about \$12.4 million was available for the program. It equated to a slightly reduced payment to communities of \$20 million. Oil and gas tax credits were funded at the statutory minimum of \$60 million, and the governor proposed to pay the amount with Alaska Industrial Development and Export Authority (AIDEA) receipts.

Representative Josephson asked how the amount of \$12.3 million became \$20 million for community assistance. Mr. Steininger replied that the community assistance program was paid for out of the capitalized fund. One-third of the fund's balance went out in community payments at the start of each fiscal year. The amount in the fund for the start of FY 22 would be about \$60 million of which \$20 million would spin off, and the amount of \$20 million would be deposited. He corrected himself that it would be at the start of FY 23 that there would be a spin-off of about \$20 million after the payments at the beginning of FY 22. He offered to provide a table.

Representative Josephson suggested that the money was down because the governor vetoed the legislature's effort to recapitalize. He asked if he was correct. Mr. Steininger responded that in the budget for the previous year there were two deposits into the fund, one of which the governor vetoed. The rationale behind the governor's veto was that the administration knew there would be significant CARES Act Funding distributed to communities. The allowability of costs from the Community Assistance Fund was much broader than the CARES Act Funding. However, the administration knew that the money would offset many of the costs borne by communities. The CARES Act funding should make communities whole for the reduction in the community assistance payments in FY 20 and FY 21.

[9:53:42 AM](#)

Representative Josephson suggested that it created a planning problem in the future for FY 23 and FY 24. He suggested the fiscal cliff was coming. He thought it was another example of burdening local government.

Representative LeBon asked if OMB had made any fund source changes for retirement away from general funds. Mr. Steininger answered that the numbers reflected the calculation prior to the legislation. The impact of the

legislation would come through a fiscal note. It was not reflected in the budget numbers.

Mr. Steininger concluded the presentation. He could delve into the budget amendments subsequent to the governor's release of the budget in December. There was a spreadsheet in members' packets.

Co-Chair Foster spoke of the limited amount of time left for Mr. Steininger's presentation. He asked if Mr. Steininger was going to touch on the 10-year plan. Mr. Steininger responded that there were some slides that were covered on the first day of the overview that addressed the first 5 years of the 10-year plan.

Co-Chair Foster suggested reviewing the governor's amendments. He asked members to hold their questions.

[9:56:46 AM](#)

Mr. Steininger directed attention to the 6-page spreadsheet in member's packets. He would run through high points on each page. On page 1 there was a small adjustment to the Office of Information Technology adding a position that would serve the new Department of Family and Community Services. There was also a technical adjustment in DOC. He explained that when the bill came out in December, some of the budgetary allocations were listed out of order. The adjustment corrected the order. There was also an increase of \$10,000 in federal receipts for DOC to allow the department to receive a federal grant. He also noted a small adjustment in the budget for the Department of Education and Early Childhood Development (DEED). The department determined that it did not require as much of a UGF match for a federal program and was removing it from its budget.

Mr. Steininger continued that there was a technical adjustment on line 5 of page 1 to align the Alaska Postsecondary Education budget with a separate proposal made in December that needed to be made in 2 places and had been omitted in one. In the Department of Environmental Conservation there was a technical adjustment to a change record that was labeled incorrectly when it was first transmitted. Another change for DEC on line 7 was an increase in spill prevention and response. He had discussed a reduction to bring the fund in line with its

over-appropriation and its declining balance. The department had overestimated the cost and needed to add back funding. The amount would still bring the department into a sustainable spend from the fund based on current revenue collections. Mr. Steininger noted a \$50,000 item in the budget for the Department of Fish and Game (DFG) for the Exxon Valdez Oil Spill to adjust the funding level for projects done by the Commercial Fisheries Division.

[9:59:02 AM](#)

Mr. Steininger moved to page 2 of the budget amendments spreadsheet. Item 9 was a fix for a technical drafting error in the budget where there was some erroneous language in the numbers section of the bill. He pointed to line 10 which had \$900,000 in federal receipts and on line 11 the amount was \$2.1 million. The change moved a portion of the Dingle-Johnson and Pittman-Robertson programs into the operating budget. He had discussed the change when he reviewed the DFG slide. He continued to line 12 in the budget for OMB. There was an addition of an administrative services director for the new Department of Family and Community services. On line 13 there was an amendment for the Division of Elections, as it required some funding related to translating ballots to different languages which had been funded previously by the federal government. Federal appropriations were currently focused on election security rather than ballot accessibility and language accessibility. In order to continue the language translation activities, UGF support was required.

Mr. Steininger continued to line 14 where there was a slight change to the elimination of the 2 building plan review positions. The department had overestimated the amount of money that could be removed for the positions. An adjustment of \$16,000 was needed. Line 15 was a replacement of authority associated with a plan to have local police departments pay for the training academy. They were not able to receive the funds from local police departments. Line 16 was also associated with the Department of Public Safety's budget having to do with a new federal grant for the Sexual Assault Forensic Evidence - Inventory, Tracking, and Reporting (SAFE-ITR) Program.

Mr. Steininger continued to line 17, an adjustment within DOR for a department-wide risk management activity associated with physical and digital security risks. Line

18 was a technical correction to a drafting error in the bill. Line 19 was a DOT amendment having to do with authority for highways and aviation because of the revenue shortfalls associated with the motor fuel tax and aviation fuel taxes. Line 20 was an addition of maintenance stations. Line 21 was for rural airport paint striping. Line 25 was also an additional maintenance station. He explained that there were a couple of maintenance stations previously funded with CARES Act Funding. The funding was available for a couple of years, but the state would have to address the funding once the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) monies expired.

Mr. Steininger continued to line 22 which was a technical adjustment to address a description. Line 23 was related to fuel tax shortfalls. Line 24 was a result of DOT changing the way it structured shifts on the Dalton Highway due to Covid. The shifts were organized to reduce the amount of travel needed. Line 25 had to do with another maintenance station, and line 26 had to do with airport paint striping.

[10:03:33 AM](#)

Mr. Steininger advanced to page 4 of the amendment spreadsheet. Line 27 was another item related to the tax shortfalls within DOT. Items on lines 29 and 30 were technical adjustments for Cost-of-Living Adjustments (COLA) in one of the bargaining units. Line 31 was a result of a request from the Judicial branch to implement recommendations from the state legislature's task force in the amount of \$480,000. From line 34 on the items were related to the language section of the bill. Line 34 was an update to a description related to the ability to collect federal receipts for the construction of a natural gas pipeline. Line 35 was language that would extend the community grants through the CARES Act as a result of CRRSA extending the deadline for expenditures. The state needed language allowing for the appropriation to extend through the available time period. Line 36 was an adjustment to the dividend from AIDEA. Their dividend amount was not known at the time of the publication of the budget in December.

Mr. Steininger turned to page 5 of the amendments. Line 37 was \$950,000 associated with redistricting for the Division of Elections. He elaborated that the division did not do the redistricting work. However, once the redistricting

process was completed, they would have to print new voter I.D. cards and produce materials reflecting the new boundaries. Line 38 would allow the Alaska Housing Finance Corporation to carry funds granted through the Revised Program Legislative (RPL) process related to housing assistance from CRRSAA and to allow them to carry it into FY 22 and FY 23, the allowable time period for the grant. Line 39 was erroneous and was associated with line 38. It should not be printed in the spreadsheet but was associated with extending the \$168.5 million.

Mr. Steininger relayed that line 40 was associated with the Washington, Wyoming, Alaska, Montana, and Idaho (WWAMI) program requiring repayment for those medical students that did not return to Alaska to serve as practitioners. They had to repay the scholarships. Currently the repayment went into the general fund, but the scholarships were paid out of the Higher Education Investment Fund. The amendment would allow the repayment to go back into the fund it was paid from. Line 41 and line 42 were requests from the legislature related to redistricting. Line 45 and on were technical in nature from a budget perspective but reflected some policy considerations as well. The Department of Administration was consolidating human resources activities and procurement activities. He reported that the procurement activities and the PCNs associated with procurement were reflected in the December budget. The human resources PCNs had not been fully identified or understood at the time. The changes reflected the transfer of human resources staff into DOA as part of central services.

[10:07:41 AM](#)

Mr. Steininger continued to page 6. He relayed that line 47 completed the transfer of the procurement consolidation for positions that had not been identified in December. Line 48 was a transaction within a department to adjust for the shift in PCNs. Line 49 aligned maintenance activities conducted by DOT on behalf of other tenants. For example, DOA was in a building that DOT had been the paying rent and utilities. There was a list of other agencies that had been in the same type of arrangement. There had not been a connection between the utility costs and rent and the tenant. The cost was being realigned with the demand.

Co-Chair Foster indicated the committee was running into time set aside for LFD's presentation. He suggested the committee could continue in the evening.

[10:09:53 AM](#)

AT EASE

[10:11:51 AM](#)

RECONVENED

^PRESENTATION: OVERVIEW OF THE GOVERNOR'S FY 22 BUDGET BY THE LEGISLATIVE FINANCE DIVISION

[10:11:55 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, introduced the PowerPoint presentation: "Overview of the Governor's FY 22 Budget." He began with a presentation outline on slide 2. First, he would be presenting the history of Alaska's budget deficit. He would then discuss Legislative Finance Division's (LFD) budget baselines for FY 22 and how the governor's FY 22 proposal lined up with those baselines. He would move on to talk about the big picture of the governor's budget, the governor's 10-year plan, and the fiscal outlook.

Mr. Painter started with Alaska's structural budget deficit on slide 3. The current year, FY 21, was the ninth straight year of fiscal deficits. The governor's FY 22 proposal would bring the state to a full decade. Through that period, the state had reduced the budget from \$7.8 billion in FY 13, the peak budget year, to \$4.5 billion in FY 21, a 43 percent decrease to the unrestricted general fund (UGF) budget. However, during that time, the state's budget reserve balances had dropped from over \$16 billion in FY 13 to under \$1 billion in the present day. He noted that it looked like the state spent \$15 billion in savings, however, some of the funds had regenerated. During the period the state had drawn down its reserves by about \$20 billion. The general fund (GF) was projected to owe the Constitutional Budget Reserve (CBR) nearly \$13 billion at the end of FY 21 because all of the withdraws from that account were a constitutional debt from the GF back to the CBR.

Mr. Painter indicated the next few slides were graphic illustrations of Alaska's structural budget deficit. He

continued to the bar chart on slide 4 which showed the petroleum revenue versus non-petroleum revenue picture over the last decade. He pointed out that in FY 12, the last year the state had a balanced budget, petroleum revenue was nearly \$9 billion. It dropped year-over-year to under \$1 billion in FY 17. Petroleum revenue rose slightly in FY 18 and FY 19 and was back at the comparable level in FY 21 and FY 22 in the forecast. Prices had been somewhat higher since the forecast. The state could receive approximately \$200 million in additional revenues, but it would still represent a much lower level than seen over the previous decade. The dramatic decline in petroleum revenue was the cause of the state's budget problems.

Mr. Painter moved to slide 5 which showed the budget over the same 10-year period. He highlighted the budget moving downward like the revenue did from the peak year in FY 13. He thought it was interesting that not all of the items listed at the bottom of the slide moved together. The state's peak budget year was FY 13. However, the peak for the operating budget alone was FY 14. In that year, facing a deficit, the legislature reduced the capital budget substantially. In FY 15 statewide items were reduced, but it was the peak for agency operations only. Fiscal year 16, FY 17, and FY 18 showed lower levels of funding reflecting budget cuts. The chart showed Alaska's structural deficit and the UGF Budget from FY 12 through FY 22. He noted the budget moving down from the peak year of FY 13. The peak for the operating budget was in FY 14. In FY 15 statewide items were reduced. The lower levels with budget cuts were in FY 16 and FY 17.

Mr. Painter continued to slide 6 which placed the two previous illustrations together showing the state's fiscal picture over the prior decade. The revenue was reflected in the background and the bars showed the budget. He highlighted the surplus in FY 12 followed by deficits. He reported that the percent of market value (POMV) draw, which began in FY 19, significantly reduced the deficit. However, the state had experienced a deficit every year despite the draw. The percent of market value draw was presently the state's largest source of revenue, but it was not enough alone to balance the budget. The state was currently looking at 10 straight years of fiscal deficits.

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Mr. Painter turned to slide 7: "Alaska's Structural Budget Deficit (Con't): CBR and SBR Balances, FY 12-22." The budget deficit had eaten away at the state's reserves. He highlighted the trend from FY 13 at the peak of over \$16 billion. In FY 20 the state spent the last of the Statutory Budget Reserve (SBR). The fund currently had no balance. The Constitutional Budget Reserve had gone from over \$12 billion in FY 14 to \$1 billion presently.

Mr. Painter reviewed the UGF agency budget changes from FY 15 to FY 21 on slide 8. He noted that as the state made the reductions over the past decade, the cuts had not fallen equally on agencies just as they had not fallen equally on all areas of the budget. Since FY 15 agency operations were down over \$500 million. However, not every agency was down. The state's public protection agencies including DOC, DPS, the Department of Law, and the Alaska Court System were up 6 percent during the same 10-year period. The Department of Education and Early Development (DEED) was relatively flat. It was down about 2 percent primarily because there was funding outside of formula funding in FY 15 that was no longer in the budget in the current year. The reduction was relatively flat.

Mr. Painter continued that the Department of Health and Social Services was down 6 percent. He thought the percentage was understating the reduction the department had experienced. He explained that in FY 21 there was one-time money for Covid-19 spending - about \$95 million in the FY 21 management plan. If the amount was removed, DHSS's budget would be down about 11 percent. All of the smaller agencies from the Department of Administration (DOA), the Department of Commerce, Community and Economic Development (DCCED), to the legislature's budget went down significantly. Collectively, the amount was about \$441 million or 35.6 percent. There were significant reductions to the smaller agencies while the larger agencies had seen smaller reductions. In the case of public protection, some of the agencies had seen increases. Mr. Painter offered to take questions.

Co-Chair Foster wanted to make sure the information was presented rather than interrupting the presentation with questions.

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Mr. Painter continued to slide 9: "Alaska's Structural Budget Deficit (Con't): UGF Agency Budget Changes, FY 15-22." The slide showed agency operations over the same period similar to the previous slide. However, the current slide broke out the University of Alaska and transportation. He thought the trend was interesting to observe. He highlighted that from the state's peak in FY 15 there were steady reductions down to FY 18. The governor's amended budget for the current year was almost the same amount as the FY 18 budget. The state had made steady reductions down to FY 18. The budget rose slightly the following couple of years due to Covid expenses. There were some increases in FY 19 that the governor's vetoes in FY 20 wiped out. The supplemental for Covid-19 and fire suppression in FY 20 brought the amount back up.

Mr. Painter continued that in FY 22 the budget was essentially flat with where the state was at 4 years prior. The state had not been able to make large reductions since then. There were some agencies that had seen significant reductions over the period, most notably the University of Alaska. Those reductions had essentially offset increases elsewhere, particularly in the public protection agencies. After HB 49 [Legislation passed in 2019 regarding criminal justice reform]. He highlighted that the cuts that had been taken over the current administration and the previous few years had returned the state to its same total level as the state was at 4 years prior.

Mr. Painter turned to slide 10 which listed LFD's budget baselines and the budget for the current year. He reported hearing that it was confusing to compare the budget from the previous year to the current year because there were several distortions that occurred in each given year's budget. In FY 21 the largest example was the Covid relief and expenses. It caused FY 21 not to be a very clean point of comparison for the current year. Comparing it year-to-year it looked like there were large reductions. However, they were really the expiration of one-time items. In order to provide a clearer comparison, LFD created 2 baselines for members - policy and law. They were intended to provide a clean starting point.

Mr. Painter continued that when people looked at the governor's budget, it would not be distorted as it was in previous years as a point of comparison. For agency operations he was using the adjusted base, which members

were likely all familiar with in subcommittee. It was essentially the current year's budget with all of the automatic changes such as the expiration of one-time items and contractual changes. The one difference between LFD's budget baselines and the adjusted base was in DEED. He indicated that any changes due to projections and student counts were rolled into LFD's baselines, as they were not policy changes but projection changes.

Mr. Painter continued that the difference between the two scenarios came in statewide items and the Permanent Fund Dividend (PFD). The current policy scenario assumed that the state would continue as it had in the current year. The Permanent Fund Dividend was approximately \$1,000. There were no unrestricted funds going to school bond debt reimbursement, the Regional Educational Attendance Area (REAA) fund, community assistance, or oil and gas tax credits. None of the items received UGF in the current year. Current law assumed that instead the legislature followed the items on the books. Therefore, it assumed a statutory PFD, full funding of school debt, the REAA fund, community assistance, and oil and gas tax credits. The difference for a statutory PFD was about \$2 billion versus \$680 million appropriated by the legislature in the current year. He noted that for statewide items, which he would provide details on in the following slide, the difference was about \$168.5 million between the two baselines.

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Mr. Painter continued to review LFD's budget baselines focusing on statewide item details on slide 11. He noted in the debt service the difference between the baselines was the municipal project reimbursement debt. The governor vetoed \$2.4 million in the current budget for that amount. It reflected a difference in the state's current policy and current law.

Mr. Painter moved to the next item, breaking out school debt reimbursement, of which the governor vetoed all of the funding for the current year. In current law LFD assumed it was fully funded. He continued that with state retirement there was no difference because they were fully funded in the current budget. All funding for the REAA Fund was vetoed. In FY 21 the governor vetoed the use of UGF for community assistance but used PCE funds. He explained that in LFD's baseline, current policy assumed there was no UGF.

Current law stated that UGF needed to get to the statutory \$30 million deposit. He noted a white paper accessible on LFD's website explaining the community assistance program, how the mechanics worked, and the projected amounts going forward. There were 2 versions of the paper - the short version showing only the funding and an extended version which included a background of the program from the Legislative Research Division. It provided a historical overview of the program along with current funding information.

Mr. Painter continued that there were zero dollars for oil and gas tax credits in the current budget, and \$60 million was the statutory deposit in FY 22.

Mr. Painter looked at FY 22 current policy and law scenarios on slide 12. Putting all of the items together, using a \$150 million capital budget for both years, the current policy budget would have a deficit of about \$900 million similar to what the state faced in the current year in FY 21. In the current law scenario, the deficit would be about \$2.4 billion. There was a difference in the statewide items and in the dividend which led to a significantly larger deficit in the baseline.

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Mr. Painter advanced to the comparison of the governor's budget versus LFD's baselines on slide 13. The governor's budget in agency operations was about \$69 million below LFD's baseline. He noted that it was not nearly the reduction that could be seen when comparing agency operations in the current year to FY 22, as many of the items were one-time items for Covid relief. There were really only \$69.3 million of reductions in the governor's budget, not the larger numbers that could be seen in the straight-line comparison.

Mr. Painter reported that in statewide items the governor was above current policy because of the 50 percent funding for school debt and the REAA fund. However, it was still significantly below the current law assumption by about \$138.9 million, because only 50 percent was funded and for other reasons which he would discuss later.

Mr. Painter continued that the governor's capital budget was below LFD's baseline because of the use of Alaska

Housing Finance Corporation's (AFHC) bonding. It added about \$104 million to the capital budget and showed up as "other" because of being a bond proceed. If it was counted as UGF, the typical fund source, the governor's capital budget would be over \$160 million, above LFD's baseline. It was because in FY 21 the state had a partially funded capital budget. The legislature did not appropriate the entire capital budget in the year. Much of it was showing up in the supplemental request or in increased projects in the current year.

Mr. Painter continued that the governor's PFD reflected the statutory amount which was higher than the current policy baseline but matched current law. The governor's budget ended up with a deficit of about \$2.1 billion. It was larger than the current policy deficit but smaller than current law because of the reductions made by the governor in agency operations and in the capital budget.

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Mr. Painter continued to slide 14 to discuss the agency operation differences. The governor's budget was \$69.3 million below LFD's baseline. The largest decrement of \$35.1 million was to Medicaid. However, funding available to the program was flat in the governor's budget. The governor was proposing language that would take \$35 million of potentially lapsing funds in the current year and rolling them into the following year. It would result in taking money that was counted in the current year's budget, pushing it forward to the following year's budget, and making it look like there was a reduction to the program. However, the same amount of funding would be available to Medicaid.

Mr. Painter explained that one of the provisions of the CARES Act was a higher federal medical assistance percentage (FMAP) rate. The state's normal rate for the non-expansion population was 50 percent. It had been temporarily increased to 56.2 percent creating a significant savings of approximately \$15 million to \$17 million per quarter in the state's budget. The rate increase had been extended through the current fiscal year and could potentially extend to the end of the calendar year.

Mr. Painter continued that in the current year, the state would lapse money in Medicaid because of the FMAP rate increase. In the following year, if the rate was extended, the state might be able to take a funding reduction without impacting services. However, if the budget was reduced, in the following year the state would have to increase the budget to avoid a service reduction. He suggested the administration saw it as a way to establish a lower baseline and to provide the basis for future cuts. It looked like a large reduction but was not a reduction in service. If the state needed to find future reductions, there would be built-in Medicaid cuts. Just to stay even, the state would have to make additional reductions in the following year.

Mr. Painter continued that the one large service reduction in the governor's budget was made to the University of Alaska. It was the last year of the compact which would result in a reduction of \$20 million. The Department of Transportation and Facilities Maintenance was also down primarily due to one-time fund changes to utilize CARES Act money. The other reduction within DOT was to AMHS.

Mr. Painter noted a reduction of 100 positions within the Public Assistance Program. He mentioned the reduction because it was a good illustration of the difficulty of making reductions. A reduction of 100 positions was one-quarter of the total positions in the program. However, it only added up to about \$3 million. He commented that when the total deficit was \$2 billion, \$3 million did not make a significant difference. All of the minor cuts were needed to balance out some of the natural increases to the budget. Reductions similar to the example did not move the needle very much relevant to the whole budget.

Mr. Painter indicated that the K-12 formula was fully funded in the governor's budget. However, the projected student count changes resulted in a reduction of funding. It was included in LFD's baseline and was not included in the \$69.3 million. The governor introduced a bill that would amend the formula that would increase funding by \$35 million but was not included in the governor's fiscal summary or LFD's summary. He indicated the reductions did not include the potential increase. Other changes across agencies netted to an increase of about \$6 million. Much of the increases had to do with DPS and DOC and the splitting of DHSS into 2 agencies.

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Mr. Painter moved to slide 15 to review statewide items. He pointed out that the governor had \$464 million for school debt and the REAA Fund which were funded at 50 percent of the statutory level. The governor had \$12.4 million of PCE funds for Community Assistance but no UGF. It would lead to a \$19.5 million payout in FY 23. For comparison in Community Assistance, the base payment to municipalities in the current year was \$19.7 million. He suggested that the \$19.5 distribution was just shy of the amount to pay the bases and would lead to those being prorated and no capital funding would be provided. All cities would receive the same funding and all boroughs would receive the same funding because there would be no room for per-capita funding based on the request.

Mr. Painter relayed that the governor proposed paying \$60 million in oil and gas tax credits using AIDEA receipts which was not a designated use of the funds. There was no real link between the programs. The traditional funding source for the item was UGF. Essentially, it was an artificial budget-lowering tactic. The governor also had a Public Employees' Retirement System (PERS) bill that was not included in the governor's budget. It was a separate bill that would reduce the budget by \$31 million.

Mr. Painter continued to the capital budget on slide 16. The capital budget amounted to \$62.2 million UGF but included an Alaska Housing Finance Corporation (AHFC) bond package totaling \$104 million. The repayment of the bonds would not hit the state on the budget side. Rather it would affect the state on the revenue side, as they would be paid out of AFHC's revenue. He explained that AHFC sent an annual dividend to the state which would be reduced by the debt service payment amounts. Although it would not be seen on the budget side, there would still be an increase to the state's future deficit.

Mr. Painter reported that the governor's GO Bond proposal would have a debt service cost of about \$22 million to \$23 million annually. However, not all of it would come out the first year, as the bonds were issued over time. The governor also had a fast track supplemental that funded some of the unfunded FY 21 projects. Some of them were moved to the FY 22 budget and others were funded with the

August 2020 RPL process. In LFD's overview of the governor's budget, the big red book, in the capital budget section there was a detailed breakdown of what happened to the unfunded projects. He highlighted that between the various funding vehicles (the supplemental, the RPLs, and increased amounts in the FY 22 budget) most of the projects were getting funded in some way in the governor's proposal. However, they were not all funded in a straight line where spending could be tracked from one budget to the next because of the many ways they were being funded.

Mr. Painter reviewed a short fiscal summary of the governor's budget on slide 17. He pointed to agency operations. There was a reduction of \$190 million rather than a reduction of \$69.3 million. The Legislative Finance Division's baselines eliminated the one-time items. Without eliminating the one-time items, it would appear there were much larger reductions than in actuality. The total budget was down \$230.6 million before the dividend. However, much of it was due to the one-time effect. If the dividend was added back in and before supplementals, there would be an increase. However, one of the supplementals the governor proposed was an increased PFD in FY 21. If the increased PFD was added back in, the budget would be lower in FY 22 than in FY 21. In the end, the deficit for both years was about \$1.2 billion.

Mr. Painter continued that the governor proposed meeting the deficit through 2 different fund sources. In FY 21 he proposed for the supplemental dividend to come directly out of the Earnings Reserve Account (ERA) in the amount of \$1.2 billion. The previously approved amount would come out of the CBR. In FY 22 he proposed for the entire dividend to come out of the ERA. The remaining deficit estimated at \$93 million would come out of the CBR.

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Mr. Painter turned to slide 18, a continued review of the governor's FY 21/22 budget. In the big picture, the governor's budget built in several UGF reductions that could be difficult to repeat. He had touched on them already. They included using lapsing balances for Medicaid, using one-time federal money in fund changes in DOT, using AIDEA receipts for oil and gas tax credits, and using AHFC bonds in the capital budget. The items all artificially lowered the size of the budget. The governor was trying to

minimize the use of the general fund. Without the items, the governor's budget would be relatively flat at \$4.5 billion.

Mr. Painter presented the governor's 10-year plan on slide 19. The governor proposed overdraws of the ERA in FY 21 and FY 22. However, he theoretically balanced the budget beginning in FY 23 by generating \$900 million to \$1.2 billion in new revenues without specifying a source. The governor also proposed to change the formula from 50 percent of statutory net income to 50 percent of the POMV draw, a reduction of about \$400 million per year compared to the statutory dividend. That dividend would still be significantly higher than the payout in FY 21 but lower than the statute.

Mr. Painter reported that the governor also built-in agency operations reductions of about \$100 million per year for FY 23 and FY 24 and sub-inflation growth beyond that time. Essentially, it would take the state from \$3.8 billion for agency operations in the governor's current budget to \$3.7 billion and \$3.6 billion. Given that some of the items were one-time in nature, it would require finding future reductions to meet the governor's plan.

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Mr. Painter continued to discuss the governor's 10-year plan on slide 20. He indicated that the governor's proposed overdraws to the ERA came at a cost to future deficits. He explained that because the POMV draw was the state's largest source of revenue, the extra draws would reduce future POMV draws causing future deficits to increase by about \$160 million in inflation-adjusted terms.

Mr. Painter advised that the legislature needed to weigh the economic benefits of a potential stimulus package against the long-term cost. The governor's proposal was essentially a stimulus package of the supplemental PFD, a larger PFD in the fall, and the GO Bond proposal. The legislature could also consider other potential stimulus or relief packages that could be more narrowly targeted with reduced spending.

Mr. Painter continued that the policy choices the legislature made would have different effects on the economy and different distributional impacts. Over the

previous several years the state had not added new revenue but had reduced the dividend below the statutory level. Comparing the different options, the state could reach the same numbers by either reducing the dividend or generating new revenue. However, they had different impacts on different areas of the state and on people in different income brackets, something to keep in mind in making policy choices. If the legislature wanted to add new revenue in FY 23, it would have to be authorized in the current year, as it took time to implement. Even then, it would be difficult to set up a new tax beginning on July 1, 2022. He suggested that hitting the target would be very challenging.

Mr. Painter suggested that if the legislature agreed to the overdraws to the ERA in the current and following years, without deficit filling measures, it could quickly result in depleting the ERA similar to what happened to the CBR and the SBR. He reminded members that every time the state overdrew from the ERA, it increased future deficits leading to reductions in services and increases in taxes. The overdraws were costly in the long-term.

Mr. Painter turned to the final slide that showed the impact of the governor's proposed FY 21 and FY 22 overdraws on the ERA balance and the POMV draw. The difference in the ERA balance could be seen immediately going from \$14 billion if the state followed the POMV to about \$10.5 billion if the legislature decided to do the overdraws. He noted LFD assumed no inflation-proofing for FY 21 through FY 24 based on a line of legislative intent that accompanied a \$4 billion transfer. In both scenarios the ERA grew but declined in the future because of a lack of inflation-proofing in combination with the overdraws of the ERA. The lines on the chart showed the POMV draws. There was no immediate change, but there was a significant difference by FY 30 looking at the 5-year average. The deficit would be about \$200 million larger (\$160 million in real terms) in the future. He was available for questions.

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Co-Chair Foster indicated Representative Edgmon had joined the meeting. He also thanked Mr. Painter for his presentation and thought it was powerful.

Representative Wool thought there was a scarcity of suggestions on how to resolve the deficit of \$1.2 billion. Angela Rodell of AFPC did not recommend overdraws. He indicated that the oil production forecast was not great, nor was the forecast of earnings of the Permanent Fund over the following 10 years. He thought testifiers needed to make suggestions. He referred to slide 14 and educational funding due to a lack of enrollment. He asked if federal funding in the amount of \$135 million could be used to help districts.

Mr. Painter thought the situation differed by district. Some of the districts that were running their own correspondence programs received increased funding in the current year because of the way the hold harmless provision only applied to brick-and-mortar students. Students could switch from brick-and-mortar to correspondence, getting counted for hold harmless, and getting counted again.

Mr. Painter reported that about half of the districts had more funding in the current year than they had in the previous year. The other half of districts, primarily districts without a correspondence program, were down significantly. For example, one district saw a 4.9 percent decrease in their student count and did not trigger the hold harmless provision which kicked in at 5 percent. Some districts were down significantly and had access to federal funding that could be used for certain purposes. However, the funding was not as flexible as UGF. Districts had reported different situations. Some had very tight budgets and some were doing better because of the interaction of the student count formula and the hold harmless provision. He could not provide one answer as to whether districts were okay. The answer would vary across the state.

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Representative Wool referred to slide 9. Mr. Painter had pointed out that FY 19 and FY 22 reflected flat funding. He asked if the bar graph included COVID money.

Mr. Painter replied that the federal number was not reflected in the UGF only slide. There was UGF specific for Covid relief in the FY 20 and FY 21 budgets. It was not in the FY 22 budget, and a reduction could be seen. Other reductions included Medicaid and DOT, the 2 largest examples. About \$50 million of the decrease was due to

using federal Covid monies instead of UGF. If the items were pulled out, the state would be slightly above FY 18 levels.

Representative Josephson referred to slide 9. He asked how the state had reduced the overall budget by 44 percent, yet the FY 22 budget looked like FY 18.

Mr. Painter replied that if the chart was extended to FY 13, the bulk of the reductions occurred in the capital budget. Agency operations were down 11 percent from FY 15, not the dramatic 43 percent. He commented that the years of reductions occurred in FY 16, FY 17, and FY 18. Since then, the state had been treading water. Looking at the information agency-by-agency, every agency experienced UGF reductions between FY 15 and FY 18. Since FY 18, the reductions were mixed and had offset increases elsewhere. Whereas, reductions occurred across the board from FY 15 to FY 18.

Representative Josephson referred to slide 12. He noted that when looking at the current policy, there was an assumption of a \$600 million PFD. Without the pre-transfer, the deficit would be about \$200 million. He asked if he was correct. Mr. Painter responded, "Yes."

Representative Josephson referred to slide 14 and SB 58 which would amend the K-12 formula. He mentioned that at the beginning of the administration's term it wanted to cut funding to education by \$250 million. Currently, the administration was looking to increase education by \$35.5 million. He asked if he was accurate. Mr. Painter replied in the affirmative. The bill would increase the correspondence multiplier from 90 percent to 100 percent. It would also move correspondence students into the formula which would increase funding in the governor's proposal.

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Representative Josephson referred to slide 16. He noted that the committee had learned that the state had \$120 million for surface transportation projects. He wondered if it should change the legislature's disposition towards a GO Bond. He suggested that \$150 million plus \$120 million for capital projects was a substantial amount. He heard the co-chairman of the other body express reluctance

on the issue including the timing. He asked Mr. Painter to comment.

Mr. Painter responded that the representative was asking a policy question. He could not provide a definitive answer. He offered that transportation projects were one portion of the GO Bond. There were other projects where there was significant need. The school construction and major maintenance list combined had \$400 million of projects. There was significantly more need that appeared on the lists. The state could fund an entire \$350 million GO Bond on school construction and major maintenance projects alone.

Mr. Painter continued that there were needs in deferred maintenance as well. Not all deferred maintenance projects would qualify as a GO Bond project because they had to be capital improvements per the constitution. There were some deferred maintenance projects that qualified. The state had a \$2 billion backlog of deferred maintenance projects. There was no shortage of need. While the presence of the federal money might make it less urgent to fund transportation projects specifically, there was no shortage of projects that could vie for a \$350 million bond package.

Representative Josephson referred to slide 18. Mr. Painter had talked about the unsustainability of the governor's proposal to draw from other sources to pay for government. He thought it came down to additional revenues to get the state's budget balanced. Otherwise, the governor's proposal was creative as anything else to get a balanced budget.

Mr. Painter replied that if the legislature did not attempt to solve the fiscal problem in the current year, then doing everything within its power to increase the life of the CBR was probably a sensible policy. If the legislature sought to solve the fiscal problem in the current year, then perhaps all of the governor's proposals were unnecessary.

Representative Josephson remained on slide 18. He wondered about the \$35.0 million of lapsing balances. He asked if the governor's proposal for FY 22 would result in flat funding for Medicaid because of federal funding. He asked if he was right. Mr. Painter responded that he was correct. He suggested that even without the lapsing balances, if the FMAP increase was extended until the end of the fiscal

year, the state would be able to meet a reduction of such magnitude.

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Representative LeBon returned to slide 12. He wondered about UGF revenue. He suggested certain assumptions had been made at the time the slide was created. He asked if any revenue assumptions had changed.

Mr. Painter indicated the assumptions were based on the Fall DOR forecast which assumed an oil price of \$48 per barrel in FY 22. Actual prices were about \$10 higher. The state received approximately \$28 million to \$30 million more in revenue for every dollar the price increased. The state anticipated about \$300 million more in revenues in FY 22 if current oil prices held. The Spring Revenue Forecast would be released in the following few weeks reflecting an updated price.

Representative LeBon pointed to the PFD line and the higher revenue number. He suggested that potentially the state would not have a higher deficit. Mr. Painter responded that the state would not have a deficit if no dividend was paid. He referred to slide 15 for an additional question. There was a reference made to using AIDEA receipts. He clarified that the money would be used to pay oil and gas tax credits. He wondered if the \$60 million was over and above the AIDEA dividend amount. Mr. Painter responded affirmatively. It would be an additional draw from AIDEA beyond their dividend which was \$17 million.

Representative LeBon asked Mr. Painter if he had an opinion regarding such a sizable draw against AIDEA's capital amount. Mr. Painter thought it was a policy call. He reported AIDEA had a \$1.4 billion net position including ownership stakes. They had cash on hand in their latest statements that could support the draw. However, it would reduce the amount they had for future projects. In the eyes of credit raters, regardless of the size of the draw, any draw from AIDEA for a state obligation would likely be viewed negatively. In terms of AIDEA's cash flow, they had sufficient cash on hand. However, it would be a significant portion of their cash.

Representative LeBon commented that overdrawing the AIDEA capital account would hamstring its ability to bond

projects at competitive interest rates. Also, AIDEA's rating might be impacted by an overdraw of their capital account. He wondered if it would be a one-time draw on AIDEA receipts or whether it would be the future program. He asked about the total level of oil and gas tax credits to be repaid. It was just a 1-year event.

Mr. Painter reported that the amount of outstanding tax credits was approximately \$700 million. In the governor's 10-year plan there was no UGF for tax credits in any year. He was uncertain if the governor's plan was to continue AIDEA draws or find another source.

Co-Chair Foster reiterated the significance of the presentation. He reviewed the agenda for the following meeting later in the day.

HB 69 was HEARD and HELD in committee for further consideration.

HB 71 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

[11:01:44 AM](#)

The meeting was adjourned at 11:01 a.m.