

HOUSE FINANCE COMMITTEE

April 16, 2021

9:02 a.m.

9:02:52 AM

CALL TO ORDER

Co-Chair Merrick called the House Finance Committee meeting to order at 9:02 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 (via teleconference)  
Representative Sara Rasmussen  
Representative Adam Wool

MEMBERS ABSENT

Representative Steve Thompson

ALSO PRESENT

Representative Adam Wool, Sponsor; Lucinda Mahoney, Commissioner, Department of Revenue.

PRESENT VIA TELECONFERENCE

Representative Bart LeBon; Fred Villa, Self, Palmer; Dave Rees, Facilitator, Business Education Compact, Eagle River; Doug Walrath, Director, Northwestern Alaska Career and Technical Center (NACTEC), Nome; Katie Bender, President, University of Alaska Anchorage Alumni Association, Anchorage; Lacey Sanders, Administrative Services Director, Department of Education and Early Development, Office of Management and Budget, Office of the Governor; Dan DeBartolo, Administrative Services Director, Department of Labor and Workforce Development, Office of Management and Budget, Office of the Governor; Chad Hutchinson, State

Director, University System; Pam Leary, Director, Treasury Division, Department of Revenue.

SUMMARY

HB 92 ANTICIPATION OF REVENUE; BORROWING; CREDIT

HB 92 was HEARD and HELD in committee for further consideration.

HB 100 EXTEND WORKFORCE INVEST BOARD ALLOCATIONS

HB 100 was HEARD and HELD in committee for further consideration.

#hb100

HOUSE BILL NO. 100

"An Act relating to allocations of funding for the Alaska Workforce Investment Board; and providing for an effective date."

9:03:45 AM

REPRESENTATIVE ADAM WOOL, SPONSOR, provided a brief reintroduction of the Technical Vocational Education Program (TVEP) bill that provided funding to 10 different vocational schools or programs around the state using .016 percent of unemployment funds. The bill provided for a three year authorization of the program.

Co-Chair Merrick OPENED public testimony.

9:04:38 AM

FRED VILLA, SELF, PALMER (via teleconference), testified in support of the legislation. He shared that he formerly was the Associated Vice President for workforce programs for the University of Alaska (UA) and administered the TVEP program for 13 years. He believed that the TVEP funding was an extremely important part of the workforce development system. He indicated that the program had been in place for over 20 years. He pointed to the annual program reports that showed the incredible amount of outreach and industry supported training programs that were a strong economic driver and foundation for workforce development in Alaska. He encouraged the legislature to consider continuing the

program in perpetuity instead of the proposed three year extension. The program had proven itself in performance and return on investment and was not a mere pilot program. He understood there were other entities that would like to be considered as a recipient of the funds. He suggested that there were opportunities to expand the program to other entities. He reported that the situation was similar to when Iḷisaḡvik College [Utqiagvik, Alaska] was added as a TVEP recipient, where the formula was adjusted by .01 percent to accommodate the change. The current recipients were held harmless and did not experience any reduction in their awards. He suggested ways new recipients could apply for TVEP funding. He thanked Representative Wool for bringing the bill forward and was deeply grateful to all the entities involved in the program's success.

[9:08:54 AM](#)

DAVE REES, FACILITATOR, BUSINESS EDUCATION COMPACT (BEC), EAGLE RIVER (via teleconference), supported the bill. He had been involved in workforce development in Alaska for the past 30 years. He shared that he was a member of the Alaska Workforce Investment Board at the program's inception. He supported TVEP,s continuation for the long-term. He shared that the BEC had continually supported the program over the years as an effective approach to delivering training across the state. The program provided both secondary and post-secondary education for many of the businesses in the state. He appreciated Representative Wool for bringing the bill forward. He stated that the program provided a pathway to jobs in many areas. He spoke to the importance of getting unemployed individuals back in jobs. He reported that the two major funding recipients, UA, and Alaska Vocational Technical Center (AVTEC) reached students across the state. Other recipients of the funds were very focused on local areas and workforce connections. He reiterated his support for the program and for the program's continuation in the long-term.

Representative Carpenter acknowledged that the TVEP program was successful, highly sought after, and useful. He knew there were some opportunities for high school students to use the vocational schools and noted the waitlist for programs. He asked if there were times unemployed members of the community were unable to get into programs while there were high school students enrolled.

Mr. Rees answered that he was aware of the situation in rare instances. He was uncertain how prevalent the situation was and deferred the answer to the Department of Labor and Workforce Development (DLWD).

[9:14:14 AM](#)

DOUG WALRATH, DIRECTOR, NORTHWESTERN ALASKA CAREER AND TECHNICAL CENTER (NACTEC), NOME (via teleconference), spoke in support of the bill. He explained that TVEP supported a regional training center network that provided workforce development training that was otherwise unattainable in the regions and would increase training expenses for the state. He delineated that in the Nome census area healthcare training was a top priority. Norton Sound Health Corporation was the largest regional employer that partnered with NACTEC to deliver dual credit high school courses and advanced technical training. The students graduated high school and immediately began employment as Certified Nurse Aides and Village Health Aides. He continued that without the funding, graduated students would wait until the following fall to begin a post-secondary education program. In addition to healthcare needs in Nome, in December 2020, Congress had authorized over \$379 million for construction of an Arctic deep draft port in Nome. Furthermore, the federal permitting committee designated Graphite Creek as a high priority infrastructure project located 40 miles outside of Nome that had the highest grade and largest known graphite deposit in the country. He informed that committee that NACTED supported both projects and the opportunity to provide workforce training. In addition, NACTEC was a DMV third-party provider for road test examinations and offered drivers education classes because of the state DMV closure in Nome. He believed that as the state budget decreased it became increasingly necessary to develop a technically trained workforce. He restated his strong support of the program.

[9:17:31 AM](#)

KATIE BENDER, PRESIDENT, UNIVERSITY OF ALASKA ANCHORAGE ALUMNI ASSOCIATION, ANCHORAGE (via teleconference), testified in favor of the legislation. She shared that TVEP had been a vital part of the university's funding stream to ensure Alaskan's access to workforce training. The university worked collaboratively with its partners to identify holes in the state's training system and addressed

the shortfalls with quality education. The university's TVEP success had been solidly demonstrated in the state's construction, trades and careers, aviation and marine, mining, oil, and healthcare system by putting people to work and growing their wages. She stated that the system was working and was providing critical training to meet the state's needs.

Co-Chair Merrick CLOSED public testimony.

[9:19:17 AM](#)

Co-Chair Merrick asked the departments to review its fiscal notes.

LACEY SANDERS, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR (via teleconference), spoke to the published fiscal note (FN1 EED) for the Department of Education and Early Development (DEED). She indicated that the fiscal note reflected an appropriation of \$463.4 thousand for the Galena City School District for the Galena Interior Learning Academy. The department distributed the grant funding to the district.

[9:20:31 AM](#)

DAN DEBARTOLO, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR (via teleconference), spoke to four DLWD fiscal notes related to the program. He turned to the fiscal note appropriated to Employment and Training Services (FN9 (EED)) that showed a reduction in the amount of \$68.9 thousand from the FY 2022 governor's request. He moved to the fiscal note (FN 8 (EED)) for the Workforce Investment Board that was the department's largest fiscal note related to the TVEP program [\$665.4 thousand in FY 2022]. The department handled most of the funds for the program. He highlighted the fiscal note allocated to Unemployment Insurance (UI) (FN10 (EED)) that was specifically for collection and enforcement related to TVEP [\$428.8 thousand in FY 2022]. He emphasized that the department could not use UI Trust Fund money for anything other than delivery of benefits. He spoke to the fiscal note (FN7 (EED)) appropriated to the Alaska Vocational Technical Center (AVTC) [\$2.351.7 million in FY 2022] used

for general operations of AVTC. He noted the \$382.3 million reduction to the program in FY 2022.

Co-Chair Merrick asked Mr. DeBartolo to address Representative Carpenter's earlier question.

[9:24:47 AM](#)

Representative Carpenter restated his earlier question. He asked if there were situations where high school students were enrolled in TVEP courses and there was a waitlist for unemployed adults to enter the program.

Mr. DeBartolo answered that he would respond in writing after further research.

[9:25:38 AM](#)

CHAD HUTCHINSON, STATE DIRECTOR, UNIVERSITY SYSTEM (via teleconference), addressed the fiscal note for UA [FN 11 (UA)] allocated to Budget Reductions/Additions - Systemwide. He reported that the anticipated amount of the appropriation in FY 2022 was \$5.2 million. He added that the operating expenditures were split evenly between personal services and commodities.

[9:26:49 AM](#)

AT EASE

[9:28:45 AM](#)

RECONVENED

Co-Chair Merrick announced that the amendment deadline for HB 100 was the end of the day on April 17, 2021.

Representative Josephson voiced that the UI benefit amount had not been updated in "a long time." He wondered if the benefit amount was updated whether it would affect the program. Representative Wool answered that the percentage for TVEP was .016 percent and if benefits were increased it would be sustainable. He did not believe it would jeopardize the program or the UI program. He thought the issue was separate from funding the TVEP program.

HB 100 was HEARD and HELD in committee for further consideration.

AT EASE

[9:31:23 AM](#)

RECONVENED

[9:32:50 AM](#)

#hb92

HOUSE BILL NO. 92

"An Act relating to borrowing in anticipation of revenues; relating to revenue anticipation notes; relating to line of credit agreements; and providing for an effective date."

[9:32:54 AM](#)

LUCINDA MAHONEY, COMMISSIONER, DEPARTMENT OF REVENUE, provided a PowerPoint presentation titled "State of Alaska Department of Revenue: HB 92 Revenue Volatility Tools," dated April 16, 2021 (copy on file). She explained that the bill modernized the state's cash management tools in order to increase the investment income from treasury funds and the Alaska Permanent Fund Corporation (APFC). The last time the statute was updated was in the 1960s. She believed the update was necessary to leverage investment income and bring maximum returns on investments. She emphasized that the reason for HB 92 was to better manage intra-year funds. Currently, when the state borrowed from the Constitutional Budget Reserve (CBR) it resulted in cash flow mismatches. The bill provided access to more modern short-term financing tools that allowed the state to borrow externally on a short-term basis and leveraged funds internally by keeping them invested.

[9:35:29 AM](#)

Commissioner Mahoney turned to slide 2 titled "Agenda" and reviewed the presentation agenda:

- Goal
- Limitations of current statutes (AS 43.08)
- Cash Flow Mismatches
  
- Access/Harm to Other Funds if needed for cash management
- Benefits of modernizing financing tools

- Mechanics of the Bill
- Questions

Commissioner Mahoney delineated that AS 43.08 allowed the Commissioner of the Department of Revenue (DOR) to issue Revenue Anticipation Notes. However, there were many more modern tools the state lacked access to. The proposed tools allowed for lower interest rates on debt and to manage and leverage the cash in the cash pool. She offered that mismatches occurred when expenditures were due before the revenues needed were received within the same fiscal year. She elaborated that access to a line of credit or other financing tools enabled short-term borrowing earning a higher rate of return than the cost of the debt, which was called "arbitrage." It also delivered more investment income to the "bottom line."

Co-Chair Merrick requested that the commissioner keep the topic at a high level overview.

[9:37:41 AM](#)

Commissioner Mahoney turned to slide 3 titled "Goal of HB 92: Improve Cash Flow Management:"

Addresses cash flow MISMATCHES, not deficits.

- Current statute AS 43.08 allows for "Revenue Anticipation Notices" (gold circles) which is only one of short term borrowing structures, and not always the best fit
- Bill enables access to short term debt management tools available in the market i.e.

Commissioner Mahoney stressed that the bill addressed cash flow mismatches, not deficits. She indicated that the slide also provided a visual of the cash management tools available and pointed to the gold circles that named the types of Revenue Anticipation Notes and the other colored circles represented only some of the tools currently available. She maintained that the world of public finance was constantly changing. She pointed to the left side of the slide that represented Capital Market Products and the right showed products directly from banks or Bank Market Funded Products. The bank products offered more flexibility. It was impossible to anticipate every



circumstance where it was beneficial to employ the short-term financing tools, which was why the state needed access to every tool available.

[9:39:30 AM](#)

Commissioner Mahoney advanced to slide 4 titled "Cash Flow Mismatches:"

- \$400M is minimum balance needed to manage cash flow
- Expenditures can occur prior to receipt of revenue, resulting in cash flow timing mismatches:
  - Federal programs require expenditures before reimbursement - Medicaid, Transportation, etc.
  - Beginning of the year appropriation transfers and cash flow needs - State pension payments, transfers to subfunds, construction peak season in summer.
- Cash flows may be impacted by external events:
  - Spike in Medicaid expenditures.
  - Federal Shutdown.

Commissioner Mahoney communicated that \$400 million represented two days' worth of high cash needs for the state. At the point where it was anticipated to need 5 days' worth of revenue, the department turned to the CBR for borrowing. She commented that mismatches were experienced throughout the year. She exemplified that Medicaid caused DOR to spend money in advance of receiving federal reimbursement and in those situations, she borrowed from the CBR. Because the CBR was depleted, the department had to adjust the asset allocation in the CBR, so its funds were placed in cash equivalent investments which was earning 1.7 percent instead of a higher interest rate. She reiterated that the legislation was about borrowing at lower rates and reinvesting at a higher rate to generate more net income.

[9:41:28 AM](#)

Commissioner Mahoney reviewed a line graph on slide 5 titled "Cash Flow Mismatches." The graph depicted "Cumulative Revenues and Expenditures by Week, Excluding CBR Borrowing in 2019." The gold line represented revenues and the silver line showed expenditures. She explained that during the first six weeks of the year the expenditures were significantly more than revenues due to many upfront payments during that time. As a result, DOR may have to borrow from the CBR in such situations, however the graph was merely intended to provide a visual.

[9:42:26 AM](#)

Representative Rasmussen asked if slide 5 was based on fiscal year or calendar year. Commissioner Mahoney replied the graph reflected a fiscal year.

Commissioner Mahoney advanced to slide 6 titled "Current Access to Other Funds." The slide contained a chart of some state funds, their balances and interest earnings. She pointed to the CBR and reiterated the change to a cash equivalent investment strategy earning .17 percent. If the CBR was depleted, she had to look to other high interest earning funds to help manage cash. She stated that the scenario was not wise finance management.

Representative Josephson looked at slide 6 showing the Permanent Fund Earnings Reserve Account, Power Cost Equalization (PCE), and the Higher Education Fund. He asked if the funds could statutorily be accessed "in a pinch." Commissioner Mahoney deferred to her colleague.

[9:44:17 AM](#)

PAM LEARY, DIRECTOR, TREASURY DIVISION, DEPARTMENT OF REVENUE (via teleconference), replied that two funds were not statutorily prohibited to be borrowed from. They were included in the sweepable funds that were swept into the CBR and could be accessed if there was a need for borrowing. Representative Josephson wondered if the CBR was reverse swept before July 1 and the Treasury could not make its payments whether the Treasury was allowed to borrow from PCE or the ERA above the 5 percent draw for some length of time. Ms. Leary answered that currently the way the General Fund (GF) was managed was money was taken from the ERA and CBR as needed. She explicated that the bill allowed the department to take funds from the CBR, the 5

percent ERA draw was used to manage state funds. Representative Josephson expressed confusion because the slide was titled "current access to other funds." He had thought they were talking about something different.

Representative Wool stated his understanding that the minimum advisable balance for the CBR was \$400 million to \$500 million. He wondered why the entire amount of the CBR was in a cash access fund. He deduced that \$1 billion was a lot to have invested in cash.

[9:47:38 AM](#)

Commissioner Mahoney answered that until six months prior the CBR was invested farther out on the yield curve, but until the recent increase in oil prices the department had been unsure of the amount of deficit and needed revenue and had adjusted the asset allocation. She wanted to ensure necessary cash flow was available throughout the year. Currently, the price of oil increased and she was considering adjusting the CBR back out on the yield curve. She stated that the situation reflected that the department was doing its job managing cash flow. The bill was about having other tools versus only adjusting for asset allocation. She would "rather have the CBR allocation farther out on the yield curve for a longer period of time then managing it so closely for the short-term knowing they could make arbitrage."

[9:48:54 AM](#)

Commissioner Mahoney advanced to slide 7 titled "Benefits:"

- Enables the Treasury and APFC to maximize returns and income
  - Takes advantage of low short term interest rates. Today's cost for \$100 million - 12 months:
  - Commercial paper - .8% (.2% interest plus .2% cost of issuing and liquidity cost of .4%)
  - Line of Credit - .55% (75% fixed rate of .4% plus .2% interest when drawing down and .15% costs of issuing)
  - Weekly VRDN - .74% (.04% interest plus .2% cost of issuing, .1% remarketing and .4% liquidity cost)

- RANS - .36% (.16% interest plus .2% cost of issuing)
- Enables current funds to remain in longer lived higher interest-bearing accounts (APFC, CBR, PCE, Higher Ed, etc.) earning more income
- Scheduling of POMV payments
- Improved liquidity management
- Enables quick access to funds in case of emergency

Commissioner Mahoney reiterated that the short-term notes would enable DOR to better manage the state's money. She elucidated that the legislation would also help the APFC by offering better tools to manage the POMV payments to the state. She furthered that currently, the POMV was managed over 10 months at \$300 million per month based on the \$3 billion payout. She relayed that there was currently a large commitment of \$8 billion to \$9 billion for capital calls to invest in a private equity fund. The APFC had to manage the liquidity of the Permanent Fund (PF) and managed for the monthly \$300 million payment. If the department had access to more financing tools the department could allow APFC to push out the POMV payments farther towards the end of the year within the same fiscal year or at a better time when the APFC could liquidate investments. The department could take out a short-term note to cover payouts until it received the funds from the APFC. The scenario increased the investment income in the PF.

[9:51:45 AM](#)

Commissioner Mahoney turned to slide 8 titled "hypothetical example of potential benefit." She related that the slide depicted the cost of borrowing for various financing tools: Revenue Anticipation Note, Variable Rate Note, Commercial Paper, and a Line of Credit. The chart included cost of borrowing, low and high earning potentials, and the income generated from borrowing using short-term notes.

[9:53:08 AM](#)

Commissioner Mahoney concluded with slide 9 titled "HB 92 Mechanics:"

- Funds borrowed would be repaid no later than the fiscal year following issuance

- Repayment of funds would be made from revenues anticipated within the fiscal year in which funds are borrowed
- The borrowing pledges the full faith, credit, resources, and taxing power of the State of Alaska (identical to general obligation bonds)
- Due to the size of Permanent Fund earnings tax-exemption may not be available for the borrowing
- Provides structural alternatives to the currently authorized revenue anticipation notes that are available in today's short-term market

Representative Edgmon stated that it all seemed so obvious he wondered why it had not been done before. He asked about risk and rewards. He deduced that it basically "ring-fenced" the CBR at a certain level. He spoke to the risk versus reward tradeoffs. He thought that there was a bigger picture regarding risk and rewards.

[9:55:19 AM](#)

Commissioner Mahoney answered that she did not really know why it had not been done before. She recognized that there had been a much larger balance in the CBR so there was likely not attention to the level of revenue generation. She voiced that regarding the risk versus reward there was always risk in an arbitrage play. She shared that she had engaged in arbitrage for 5 years for the Municipality of Anchorage and always had a positive outcome. She spoke to the need to be careful but believed that the employees in the Treasury and DOR could easily deliver. Representative Edgmon believed it would be helpful to hear from the director of the Alaska Permanent Fund Corporation (APFC). Commissioner Mahoney had spoken to Angela Rodell, Executive Director, Alaska Permanent Fund Corporation to provide testimony during the hearing but she was unavailable.

Representative Rasmussen asked what the commissioner believed her roll was in terms of what she owed to Alaskans as overseer of the state's assets. Commissioner Mahoney answered that it was her responsibility as fiduciary to oversee all funds in compliance with the laws and to manage the department. She believed it was also her duty to

maximize investment income and modernize the ways of investing.

[9:58:28 AM](#)

Representative Rasmussen thought the commissioner should have all the tools allowing the department to execute what was in the best financial interest to the state. She found it shocking the statute had not been updated since the 1960s. She supported the bill.

Representative LeBon thanked Commissioner Mahoney for her presentation. He strongly supported the bill. He thanked the commissioner for meeting with him in person the previous day about the bill. He thought the tools should have always been available to DOR and he believed it was long overdue. In the world of short-term financing, the timing was critical for passage of the bill sooner rather than later to allow the commissioner rapid access to the tools.

[10:00:55 AM](#)

Representative Edgmon supported the bill and believed he needed to learn more about it. He determined that the necessary minimum amount of what should be in the CBR was a "gray area" and "unanswerable question." He considered the CBR "a checking account of sorts." He believed that if the CBR maintained a \$1 billion balance the investment tools were a "no brainer." However, if the CBR was depleted to \$400 or \$500 million he was interested in knowing more about the tradeoffs. He strongly believed \$400 million was the bare minimum that should be in the account and would like to learn more about the bill.

Representative Wool stated that the legislature kept hearing that \$400 million to \$500 million was the bare minimum balance that should be in the CBR. He referenced Commissioner Mahoney's testimony stating because the price of oil decreased the CBR balance needed to increase and if the financial tools were available more of the CBR could be kept in a higher earning account. He had not previously heard that analysis. He deduced that if money could be borrowed on the short-term then it could be argued that an even smaller balance could be kept in the CBR. He reasoned that the CBR was a political and fiscal account, and it was beyond a simple cash account. He asked if linking the CBR

balance to the price of oil or having additional financing tools changed the number the legislature was told was the minimum needed in the CBR.

[10:05:09 AM](#)

Commissioner Mahoney viewed reserves differently. She reasoned that there was a "cash flow mismatch reserve" and there was also the potential for deficits. She determined that cash flow management reserves were different than a deficit reserve situation. She elaborated that when she had referred to a price of oil decline, she considered it a deficit situation therefore she would want the CBR balance to be higher, because the future was unknown. She stated the complexity of the issue and shared that the department had staff exclusively dedicated to work on cash flow management.

HB 92 was HEARD and HELD in committee for further consideration.

Co-Chair Merrick reviewed the schedule for the following Monday.

#

ADJOURNMENT

[10:07:00 AM](#)

The meeting was adjourned at 10:06 a.m.