HOUSE FINANCE COMMITTEE
SECOND SPECIAL SESSION
June 24, 2021
1:32 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:32 p.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
Representative Steve Thompson
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Matt Gruening, Staff, Speaker Louise Stutes; Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Kate Sheehan, Division Director, Division of Personnel and Labor Relations, Department of Administration; Meera Kohler, Previous Executive Director, Alaska Village Electric Cooperative; Angela Rodell, Executive Director, Alaska Permanent Fund Corporation; Representative Mike Cronk; Representative Ken McCarty; Representative Geran Tarr.

PRESENT VIA TELECONFERENCE

Marie Marx, Legislative Legal Services, Juneau; Cori Mills, Deputy Attorney General, Department of Law; Nicole Kimball, Pacific Seafood Processors Association, Anchorage; Sarah Leonard, Alaska Travel Industry Association, Anchorage; Jim Matherly, Mayor, City of Fairbanks, Fairbanks; Marcus Trivette, Executive Board Director, Associated General Contractors of Alaska, Fairbanks.

<u>SUMMARY</u>

HB 2002 EFFECTIVE DATES FOR CCS HB 69

HB 2002 was HEARD and HELD in committee for further consideration.

Co-Chair Merrick reviewed the agenda for the meeting.

#hb2002
<u>HOUSE BILL NO. 2002</u>

"An Act providing for effective dates for CCS HB 69, passed by the Thirty-Second Alaska State Legislature in the First Special Session; and providing for an effective date."

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MATT GRUENING, STAFF, SPEAKER LOUISE STUTES, thanked the committee for hearing HB 2002. He reviewed the sponsor statement:

House Bill 2002 implements the failed effective date clause in House Bill 69, the operating budget.

The operating budget passed both bodies under final consideration, but the effective date clause failed to gain the necessary 27 votes in the House.

In the event that House Bill 69 is signed into law, this legislation will work in tandem to eliminate any doubt regarding the Administration's ability to keep government running on July 1st.

Fresh off a year of frustration and economic stagnation due to COVID-19, Alaskans and our economy can ill afford a government shutdown. This legislation would avert that and provide the certainty Alaskans desperately need during the peak of the tourism, construction, and fishing seasons.

Mr. Gruening explained that before the committee was a 2-page bill containing only the effective dates found in the conference committee substitute for HB 69. He would briefly run through the subsection of HB 2002 which implemented the appropriations and the effective dates in HB 69.

Co-Chair Merrick indicated Representative Tarr, Co-Chair Foster, and Representative Johnson had joined the meeting.

Mr. Gruening indicated that in Section 1, subsections 1-5 of HB 2002 corresponded to Section 81 and Section 85 of HB 69 (version K prior to the removal of the reverse sweep and the Constitutional Budget Reserve) subsection 1 of HB 2002 implemented the fiscal notes for SB 55, the PERS employer contributions bill, and would be effective immediately. Subsection 2 implemented the retroactivity clause in HB 69 that would also be effective immediately. Subsection 3 implemented the supplemental appropriations in HB 69 other than those with lapsing balances retroactive to April 15, 2021. Subsection 4 implemented the supplementals in HB 69 that were reappropriations of lapsing balances effective June 30, 2021. Subsection 5 implemented the FY 22 operating budget items in HB 69 and would be effective July 1, 2021, the first day of the new fiscal year. Section 2 of HB 2002 contained the immediate effective date. On behalf of the sponsor, he urged members to support HB 2002.

Co-Chair Merrick indicated Mr. Steininger from the Office of Management and Budget (OMB) would provide a brief introduction of the bill before moving on.

Representative Edgmon clarified that the bill was not an admission that the operating budget (currently in the possession of the legislature but would be transferred to the governor at some point) was defective. The bill was an attempt by the House Majority Coalition to avert a government shutdown using every means possible. The coalition intended to get an operating budget to the governor in a timely manner. Outside of attempting to reconsider the vote on the effective date on the existing operating budget, the bill before the House Finance Committee was an additional vehicle for the governor to use to avoid a government shutdown. He wanted to get the information on record.

Co-Chair Merrick invited Mr. Steininger to the table to provide a brief summary of the governor's government shutdown plan.

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NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced himself.

KATE SHEEHAN, DIVISION DIRECTOR, DIVISION OF PERSONNEL AND LABOR RELATIONS, DEPARTMENT OF ADMINISTRATION, introduced herself.

Co-Chair Merrick indicated Representative McCarty had joined the meeting.

Mr. Steininger indicated members should have a handout: "Critical Services List" (copy on file). The list was a product of the work the Office of Management and Budget (OMB) did in collaboration with the Department of Law and the Division of Personnel and Labor Relations to determine how the state would manage in the event of a government shutdown. The list was a compilation of multiple assessments of the impacts of a shutdown over the previous several years. The was not the first time that state had faced a potential shutdown or the need to send out layoff notices. The analysis before the committee was built on prior analyses. The state had had multiple attorneys general, staff at the Department of Law, and staff at OMB look at prior analyses to develop a plan of implementing a shutdown. The government had never had to implement the analyses which meant they were untested. The determination was based on the best ability to weigh different constitutional consideration.

Mr. Steininger reported that when considering essential services or partial essential services in a government shutdown, OMB considered several different categories. First, he considered items that were clearly constitutionally required items essential for life, health, and safety. He used the Department of Corrections as an example. Under a government shutdown and without an appropriation the government still needed to house, feed, and monitor inmates. Similarly, the Department of Health and Social Services had a responsibility to care for the residents of Alaska's Pioneer Homes.

Mr. Steininger relayed that next he looked at items that might not have clear life, health, or safety issues but in an extended period of shutdown would begin to have life, health, or safety issues or have significant detrimental economic impacts to the state. An example would be managing fisheries. The state had a constitutional obligation to properly manage fisheries and natural resources which required a certain level of staffing. Another area that had a significant economic impact was management of the state's assets such as assets in the Treasury and the Alaska Permanent Fund Corporation (APFC). Both required some monitoring by investment managers to avoid significant financial harm to the state during a shutdown.

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Mr. Steininger continued that the third category had to do with areas requiring federally mandated items. He noted the Medicaid program in which the state had an obligation to the federal government to perform certain duties and provide certain services. Some of the federal mandates within DHSS could be seen on the critical services list. There were other areas that would experience delayed impacts of funding. The state was obligated to fund and provide education to students in the state. However, the timing of payments was a consideration.

Mr. Steininger continued that the last group represented full shutdown items in areas where a clear life, health, safety, significant economic impact, or a federal or other mandate did not play a role. He reiterated that the items were untested, as there had never been an actual shutdown. There were some grey areas such as staff working currently in the field. there was the assumption that there would be resolution to the budget prior to the end of the fiscal year. Staff in the field would begin winding down operations on July 1st. The state would not wind down operations in advance of a shutdown. Director Sheehan would discuss how the administration was notifying employees of the circumstances.

Ms. Sheehan reported that on June 17, 2021, the division sent out layoff notices to all executive branch employees - approximately 15,000. The state's collective bargaining agreements required layoff notices to go out at least 10 days prior to a layoff. As she was working through the layoff notice process, she was aware there would be recall notices. She received several questions regarding why the state was not furloughing employees. She would explain the distinction. A layoff was a separation from state employment and required the cashing out of an employee's leave or compensatory time earned. In the current case, because it was not a true layoff or a layoff contemplated under the collective bargaining agreements, when they were recalled, they would return to their same office. She reiterated it was a separation and the state had to cash out leave.

Ms. Sheehan continued that if an employee was furloughed, they would be in leave-without-pay status but would still be considered an employee and, the state would not have to cash out leave. The state could not do furloughs absent an agreement with each union. The state was working with those unions where furlough agreements were not in place. Presently, the state was laying off the majority of its employees who fall under some of the provisions. The state was beginning to send recall notices to those employees that fell under the different categories mentioned. For the other levels of partial shutdown or reduced staffing, the state would recall people when they were needed back. It would depend on their functions.

Representative Wool asked about the mechanism of rehire and the paperwork. He wondered if they would be a new rehire.

Ms. Sheehan responded that if it was a true layoff like the state's collective bargaining agreements contemplated there would be more paperwork. In the current case, the state would send notices to employees and bring them back. The real detriment was the separation. An employee would return with a zero leave balance and could not buy back their leave.

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Vice-Chair Ortiz asked who decided on the level of service and staffing that would remain in the partial shutdown of an agency.

Mr. Steininger replied that it would be up to OMB and the Department of Law. Both agencies spoke with other departments to determine what level of work was necessary to meet the core constitutional obligation. He used payroll staff as an example. They would need to come in to do payroll. The Office of management and Budget worked with agencies to understand the needs and the legal justification. There was some grey area regarding partial shutdowns. The Office of Management and Budget endeavored to understand an activity and worked with the Department of Law to determine what was defensible. Ultimately, the decision came from OMB and the Department of Law.

Vice-Chair Ortiz asked for clarification around the term "defensible."

Mr. Steininger explained that it had to do with competing obligations in the constitution. There was the obligation not to expend money from the treasury without a valid appropriation weighed against the obligation to protect health and welfare. He further explained that the question the department had to answer was whether the decision to recall an employee or make an expenditure was something OMB could defend as being weighted more towards health and safety versus the obligation not to make an expenditure.

Representative LeBon referred to page 7 of the Critical Services List under the Department of Military and Veterans Affairs. It indicated emergency coordination was fully operational but with limited staffing. He also referred to page 9 regarding the Civil Air Patrol being shut down. He believed oversight of the Civil Air Patrol was the responsibility of DMVA. He wondered if state support for the Civil Air Patrol was simply based on pass-through dollars leaving the state with no operational control. If the state were to have some operational control and the emergency coordination function was up and running for DMVA, he wondered if the Civil Air Patrol would fall under its oversight.

Mr. Steininger responded that an entity such as the Civil Air Patrol received partial financial support from the state but received funding from other sources as well. They might not be dependent on the passage of the state operating budget in order to function. Under emergency services DPS could continue to coordinate with the Civil Air Patrol as an independent entity. The state might not be able to deliver any grants immediately on July 1st.

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Representative LeBon asked that when the term "Shutdown" was used for the Civil Air Patrol it meant denying any future funding. However, the Civil Air Patrol could provide services if called upon by the state for assistance. He wondered if he was accurate.

Mr. Steininger thought Representative LeBon was understanding correctly. It was a delay until a valid appropriation was passed. The Civil Air Patrol could still be called upon by the state, as they were an independent organization that could operate themselves.

Representative LeBon clarified that the state would not be closing down the Civil Air Patrol's function. In terms of funding, whatever amount was in the FY 22 budget would be available in the future. However, the state would still engage with the services of the Civil Air Patrol.

Mr. Steininger responded, "That's correct."

Co-Chair Merrick asked if Mr. Steininger was available until 2:30 pm.

Mr. Steininger confirmed he was available.

Representative Thompson asked for the total for the leave liability.

Ms. Sheehan replied that the total leave liability was over $190 million. She was unsure of the leave related to the laid off employees because presently she did not know how many employees would be laid off.

Representative Thompson asked where the payout would come from to pay the leave balance.

Mr. Steininger replied that the money would come out of the general fund.

Representative Josephson understood the money would come from the general fund. However, he thought he would have heard about the availability of an extra $190 million. He asked exactly where the dollars would come from.

Mr. Steininger replied that the state had a leave bank that only had a balance of about $5 million - not enough to cover a $190 million leave liability. The money would have to be paid out of the state treasury, as it was an obligation for the state to cash out leave should an employee sever employment with the state. If it happened, depending on the amount that came out, the state would have to assess whether it would be a future supplemental request or whether it could be managed with existing appropriations.

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Representative Josephson asked if the individuals would have health care through July 1, 2021.

Ms. Sheehan responded, "Yes, they will."

Representative Josephson asked if there would be a spike in health care services for individuals trying to get procedures done prior to their health care ending. He wondered if the state would experience associated impacts.

Ms. Sheehan replied that previously there was a spike in health care when a 30-day layoff notice was sent out. The state sent out 10-day layoffs most recently. She would not know whether there was a spike until a few months passed. Due to the CARES Act there was COBRA funding through September 30, 2021, for state employees if the state remained in layoff status. After July 31, 201 if employees needed to invoke COBRA, it would be paid for by the federal government.

Representative Josephson asked if there was any ambiguity in any collective bargaining agreements that might explain why a public employee union would think workers in layoff status could receive pay. In other words, he wondered if there was a stipulation that if government shut down and employees were not the cause, the state would have to pay them.

Ms. Sheehan responded that she was not aware of any such language. She clarified that the layoff language in the state's collective bargaining agreements did not contemplate a shutdown. It contemplated a true layoff where an employee was separated.

Representative Carpenter asked if the Department of Law had weighed in on the legality of HB 2002 and the effective date issue.

Mr. Steininger indicated he would have to get back to the committee.

MARIE MARX, LEGISLATIVE LEGAL SERVICES, JUNEAU (via teleconference), explained that because the representative's question related to the effective date in HB 69 which was the subject of ongoing litigation she could not comment.

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CORI MILLS, DEPUTY ATTORNEY GENERAL, DEPARTMENT OF LAW, (via teleconference), clarified if Representative Carpenter was talking about HB 2002, the bill in front of the committee that sought to add an effective date to HB 69, it was similar to something that was done in 1996 when an issue arose where the effective date failed. The Department of Law had not identified any legal issues with the bill as long as the two-thirds vote provided an effective date.

Representative Carpenter asked if the governor had received HB 69 or HB 71 and the impact of the bill not being transmitted.

Mr. Steininger relayed that to his knowledge neither bill had been transmitted to the governor.

Representative Carpenter asked if the government shutdown situation become more difficult to manage if HB 71 was not transmitted and received by the governor.

Mr. Steininger responded that HB 71, the mental health budget, did not have the effective date issues present in HB 69. He pointed out that some departments with valid prior appropriations or appropriations included in the mental health bill were on the critical services list. He continued that if HB 71 was transmitted to the governor, underwent a veto review, and was signed, the state would have valid appropriations for some items in the state budget. It was not an entire operating budget. It just covered certain items which were on the list. For example, the Council on Domestic Violence and Sexual Assault and the Medicaid Program would receive some funding. There would be valid appropriations for some items if a shutdown came to fruition.

Representative Carpenter asked how many people were actively employed within the Department of Military and Veterans Affairs.

Mr. Steininger did not have the number with him.

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Representative Edgmon commented that it took a few days after the budget was passed by the conference committees for engrossment, enrollment, and for the bill to be put in its final form. He was not speaking for Speaker Stutes, but he thought it was worth making the clarifying statement that the quickest way to get an effective date in place was to reverse the prior action through a rescinding vote on the House Floor. He was aware the speaker was keeping that in mind relative to not transmitting the budget. He also knew that it was her intention to get the bill to the administration as quickly as possible to allow for the governor to start his considerations on the bill. He suggested there was a balancing act, as everyone wanted to avoid a government shutdown and wanted action to be taken as quickly as possible. He appreciated the hearing and listened intently to the presentation. It sounded like layoff notices had been sent out to 15,000 state workers. He thought the legislature had some guidelines or some sort of a plan by agency as to what services might be kept intact and what services might not be funded. He also thought he heard Representative Thompson's question about how many of the 15,000 layoff notices that were sent out would actually be consummated. If there was a government shutdown on July 1st, it was unclear how many state workers would not be on the payroll and have to cash out their leave. He wondered how things would be paid for if a shutdown were to occur.

Mr. Steininger indicated the administration would use the conference committee budget as a guide for funding absent an appropriation. If one of the fully operational activities were funded with the alcohol tax fund, for example, the administration would fund the services from that fund. Should the fund sources be changed in the bill that eventually came out of the legislature from what was included in conference committee, the administration would make an adjustment in the state's accounting system to re-assign any mis-assigned expenditure and ensure that what was recorded matched the final appropriation bill.

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Representative Edgmon clarified that the administration had a broad estimation of the services that would remain intact.

Mr. Steininger indicated that was what was represented in the document.

Representative Edgmon wondered if the administration had a broad sense of how many of the 15,000 layoff notices would result in actually laying off employees. He asked if his assessment was correct.

Mr. Steininger replied that in a broad sense, "Yes." He elaborated that the analysis was being looked at to determine what employees would be at a reduced staffing level. The question regarding the amount of leave liability was not yet determined. However, the department had a broad understanding of which employees would be recalled. Some of the recall notices were beginning to be distributed by agencies.

Representative Edgmon suggested that not all of the leave liability totaling $192 million would be paid out. He observed that the administration would be acting as if it had appropriation powers because the money to pay for the services on the list had to come from somewhere. He noted one source being the Constitutional Budget Reserve (CBR), the state's working capital account. He asked if his observation was accurate. The governor was not supposed to spend money without an appropriation. However, the document would require him to spend some money - an amount in the millions. He did not have a clear answer as to where the money would come from. It would be comingled and brought back into the budget process. He noted there would likely have to be a supplemental budget process in the following year which would increase the budget by whatever set amount. He reiterated not having clarity where the money would come from without an appropriation.

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Mr. Steininger admitted Representative Edgmon had highlighted a key tension. The state had competing constitutional obligations. There was not a valid appropriation. Therefore, per the constitution, no expenditure could be made from the treasury without a valid appropriation. Meanwhile, the state had an obligation related to life health and safety. The state had to weigh the constitutional obligations against each other. The list represented the decisions in weighing the obligations against each other.

Mr. Steininger reiterated that in terms of how it would be funded the administration would look to the conference committee budget as a guide for the funds that would be used during the shutdown. The general fund would continue to receive revenue as well as other funds during the shutdown. The state would still be operating as if there was a budget enacted for some of the fully operational items. It placed the state in a tenuous constitutional situation where it was weighing two different obligations against each other. They would be funded the same as they would if there was a valid appropriation bill. In order for the Department of Corrections to meet the obligation to care for inmates within prison systems, the state would access the general fund as it was lined out in the conference committee budget. The administration was not seeking to make expenditures through the document in excess of what the legislature had contemplated appropriating. He reiterated the constitutional friction between the different terms the administration had to adhere to.

Mr. Steininger addressed the issue of cashing out leave. It was an expenditure not necessarily contemplated in the annual appropriation bill. Typically, the normal level of leave was contemplated for the average turnover of state employees. The cash out of leave associated with a government shutdown would be an unanticipated and unbudgeted item that the state would be obligated to meet.

Co-Chair Merrick indicated she would allow 2 more questions for OMB as the presenters had another obligation.

Representative Wool asked how cruise lines would be affected by the state shutdown.

Mr. Steininger did not believe the shutdown would affect the ability for cruise ships to enter state waters. He was aware that most of the functions around cruise ships were things such as water testing through the Department of

Environmental Conservation. Such items would not prevent cruise ships from entering Alaska.

Representative Rasmussen asked if the state had estimated the cost of a shutdown.

Mr. Steininger indicated that OMB had tried to care for things like costs related to the investment of state assets like APFC or the Division of Treasury in its shutdown planning to ensure that the state did not see significant financial harm through the shutdown. The estimated amount of $190 million would be the extreme upper end of cost for leave cash-in. However, it was clear that not all employees would be severed. Therefore, $190 million was far in excess of what the state faced. The state had not done any detailed analysis beyond the information he provided. There were several variables and unknowns because the state had never gone through a shutdown. Understanding what some of the restart costs might be had not been estimated.

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Representative Rasmussen referred to page 8 of the critical services list. She pointed to the Recorder's Office and the Office of Project Management and Permitting. She noted they would be shut down. She was aware that with the Recorder's Office shut down, no current real estate transactions could be fully executed at the end. People would be in a limbo status. She reported that in transactions there was often times an interest rate lock. Once the associated deadline expired it cost money to extend the interest. If a person was not able to record on their home in time, the bank or the buyer would incur expense. She wondered if the state could be held liable. She suggested the state should look into the issue of hidden costs resulting from a shutdown.

Co-Chair Merrick indicated there were six presenters. Therefore, the committee would take a 10 minute break.

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Co-Chair Merrick indicated the committee would hear invited testimony which was the purpose of the hearing. There were six presenters who would discuss the impacts of a shutdown on different industries. She invited Ms. Kimball to begin.

NICOLE KIMBALL, PACIFIC SEAFOOD PROCESSORS ASSOCIATION, ANCHORAGE (via teleconference), was a non-profit trade association made up of 8 major seafood processing companies. They operated 25 different facilities in 15 remote communities across Alaska and included some floating processors. They were involved in almost every commercial fishery in Alaska. She appreciated the invitation to testify on the impacts to the state's commercial fisheries that could result from the state shutdown on July 1, 2021. The organization had submitted a letter to the legislature trying to convey the impacts in a general way. She hoped members had the letter as a reference. She mentioned the list of critical services released by OMB that had been addressed. Some information on partial shutdowns and reduced staff levels related to departments including the Department of Fish and Game (DFG). She did not quite know how to interpret what the impacts might mean for specific fisheries or regions. She believed the information was unknown at present.

Ms. Kimball continued that while seafood processors were a central part of the seafood supply chain, they were absolutely necessary to take raw fish, develop it into a product, and secure and develop markets for the products. Her testimony could not possibly capture all of the impacts to the almost 30,000 fishermen, support businesses, local governments, and the huge network of transportation businesses that relied on Alaska's commercial fisheries. She noted that she had not covered sport fish, personal use, or subsistence fisheries. She was speaking on behalf of one component of a resource industry that reached almost all aspects of Coastal Alaska and benefited thousands of Alaskans and Alaska businesses. Each one of the fishing families was its own independent business and depended on the ability to have fisheries operational. The concern was not having the sate budget by July 1st. It meant closing fisheries to an uncertain extent as a result of not having DFG staff in place to manage fisheries. The shutdown would occur as many fisheries were underway and, some salmon fisheries, in particular, were just about to get started.

Ms. Kimball thought the reason the state had sustainable fisheries that consistently created $5 billion to $6 billion in economic activity in Alaska every year was because Alaska had a constitutional requirement to manage those fisheries sustainably in the interest of the economy and for the well being of the state. The resource industry and the state were highly dependent on a management system that was staffed by state employees to manage fisheries in season, to collect data ongoing throughout the season, and open and close fisheries as needed for that purpose. Without DFG staff in place, fishermen, processors, the state would lose their ability to access or derive any value for the resource. The state collected revenues of about $172 million consisting of taxes and fees from the fisheries resource but only when it was harvested.

Ms. Kimball reported that the letter she was working from mentioned Bristol Bay impacts in particular. The fishery was fully geared up and typically peaked in July. She thought it was a good example given that it was a huge volume fishery. There was a forecasted harvest of over 37 million Sockeye. The Bristol Bay fishery occurred over just a few weeks. Needing to pull people out of the field on July 1st or pulling people out and putting them back in the field was costly to the state. Any delay in having full staff resources available to manage the fishery meant not just high costs to the state, it essentially meant missing the fishery because of its short duration. She opined that it was critically important to have a seamless transition into the next budget. The state could miss the most valuable wild salmon fishery in Alaska and the most valuable and largest Sockeye salmon fishery in the world. The ex-vessel value in the prior year was over $140 million. However, Bristol Bay supported about 8,500 fishermen, 6,000 processing workers, and an economic benefit to Alaska of nearly $1 billion.

Ms. Kimball hoped people understood that the logistics of commercial fisheries in extremely remote regions of Alaska were tremendous. Harvesting, processing, transportation, and support businesses had tens of millions of dollars in sunk costs in the current year in Bristol Bay alone. It was how it was all across Alaska. There were hundreds of millions of dollars invested in remote areas, most of which were not connected to the road system where the cost of doing business was extremely high and extremely risky. There were millions of dollars spent just to open the doors of processing plants before one fish came across the dock. It meant that currently across the state there were thousands of employees already in processing plants and over one hundred tenders in place ready to transport fish. All the processing and packaging materials had been shipped and thousands of shipping containers had been deployed to remote ports. Harvesters and crews had invested in their vessels and gear, advances had been made to fishermen, and markets had been established. That is not to mention all of the support businesses that really depended on the influx of business, much of it around salmon, that was provided in Alaska's small coastal communities. The near-term cost of a potential shutdown if the fisheries were not fully operational were significant for both large and small businesses.

Ms. Kimball emphasized how difficult a shutdown would be on the back of COVID where the fishing industry worked extremely hard to stay operational under the challenges of 2020 and 2021 at a great cost to people. McKinley Research Group estimated that processors alone paid $70 million in unplanned costs directly related to COVID mitigation in 2020 and an estimated $100 million in 2021. She could talk at length about what comprised the costs. They were necessary to keep the workforce and communities safe. Her point was that combined with the pandemic costs, the inability to have fully operational fisheries could directly affect thousands of families, individual businesses by ability, and negatively impact the seafood industry in the long-term. The industry was clearly in a recovery mode from the previous year and a half and, she believed everything necessary should be done not to jeopardize that recovery.

Ms. Kimball mentioned Bristol Bay in particular because of the shear level of investment, the timing of the fishery, and the short season. She thought it was easier for people to understand the magnitude at risk in that fishery. However, there were fisheries across the state at similar risk. Her letter tried to mention several of them including Southeast salmon fisheries, Kodiak fisheries, North and South Alaska Peninsula fisheries, Upper Cook Inlet fisheries, Prince William Sound fisheries, Norton Sound crab fisheries, and others. Those fisheries were as important to thousands of fishermen, processors, and communities dependent on them. There were already several inherent risks in an industry that depended on a wild resource such as fish, that a lack of a state budget and state employees to manage the fisheries should not be one of them.

Ms. Kimball believed the House Finance Committee recognized where Alaska stood. The state made up more than 60 percent of the total harvest in the United States and made up a huge portion of the nation's fisheries. She hoped she conveyed some of the aspects of the importance of having state employees in place to fully manage Alaska's fisheries and the need for a state budget by July 1st.

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Co-Chair Merrick invited Sara Leonard to begin her testimony.

SARAH LEONARD, President, ALASKA TRAVEL INDUSTRY ASSOCIATION, ANCHORAGE (via teleconference), would share the impact of a state government shutdown on Alaska's travel and tourism sector. She relayed that the Alaska Travel Industry Association (ATIA) was the leading statewide non-profit association and the voice for Alaska's tourism industry. There were more than 600 tourism business members operating in every region of the state including but not limited to individual fishing guides, wilderness lodge owners, cultural attraction managers, and cruise ship executives.

Ms. Leonard continued that the Alaska Travel and Tourism Industry Association, in partnership with the Department of Commerce, Community and Economic Development (DCCED), was also the manager of Alaska's destination marketing program, Travel Alaska. She knew that the COVID-19 pandemic had hit Alaska hard and in particular Alaska's travel and tourism businesses had suffered significantly. Results in the recent COVID impact survey commissioned by ATIA with McKinley Research Group showed Alaska's visitor numbers dropped by 82 percent from 2019 to 2020. Job loss in the sector was 72 percent reflecting almost 28,000 positions that were laid off or not hired for the previous year. Visitor industry wages plummeted by 79 percent over 2019 - a loss of $819 million for the pockets of Alaska's workforce. Revenue in municipal and state coffers due to visitor taxes and fees fell 71 percent or $102 million. The numbers did not lie.

Ms. Leonard asserted that the prior year was devastating to Alaska's business owners and their employees. One respondent summed up the sentiment with the following statement:

> "It's been emotionally wearing to see so many of my industry friends be out of work and struggling. I have also been on unemployment for the first time in five-plus decades of working."

Ms. Leonard continued that at a fragile time in the state's economic recovery and most especially the recovery of the tourism sector, Alaska could ill afford to take another hit to traveler confidence and to the state's reputation as a COVID-safe destination due to a potential government shutdown. The association's current national marketing campaign attracting pandemic-weary travelers would cease in the event of a shutdown. It would effectively cut the cord of the industry's microphone as Alaska was saying to the world, "Go big! Go strong! Go Alaska and we welcome you!"

Ms. Leonard continued that ATIA's marketing efforts and those by the governor's office were starting to pay off. Independent travelers were returning to visit Alaska in the current summer to experience wildlife, wild seafood, outdoor adventures, cultural richness, and incredible scenery. Alaska's natural and wild resources were what other destinations covet, the reasons Alaskan's lived in the state, and played a role in providing memorable visitor experiences.

Ms. Leonard continued to explain the potential impacts of a state government shutdown. Management of public lands would see significant impacts. State Park sites would operate with very limited staff to maintain facilities. Independent tour operators would be allowed to run tours at State Parks though there would be no law enforcement park ranger assistance available to manage public safety if the need arose. Other examples in the event of a shutdown included permitting being halted including commercial outdoor recreation permits and process. Also, administrative functions and construction projects that benefited the tourism industry infrastructure would be paused.

Ms. Leonard Continued that ATIA appreciated the state's elected leaders in hearing the importance of supporting tourism businesses and the value of destination marketing, especially during a time of recovery with the funding approved in the budget for a $10 million appropriation.

However, with a shutdown, the marketing dollars would be in jeopardy. The association could lose the momentum it had started to create. The efforts ATIA had made to attract individual travelers had made a difference in the current season but, the $10 million allocation in the budget was for the following year. Without it, there would be no funding for tourism marketing.

Ms. Leonard reported that the Alaska Travel Industry Association had advocated for continued investment in destination marketing since the pandemic began arguing that Alaska competed with other domestic destinations to attract visitors. It was at a time when other states had been opening up for business. For example, California's legislature recently approved an appropriation of $95 million for tourism marketing from their federal recovery funds. Hawaii Tourism Authority had $60 million in their budget. In the following year, international destinations would be back in the mix offering even greater competition. The amount of $10 million approved in the Alaska Legislature's budget would go a long way towards shoring up the greater economic recovery of Alaska in the future. With a significant marketing campaign planned across the country and internationally, they could design a return to pre-pandemic growth in Alaska's tourism sector.

Ms. Leonard continued that the travel industry was part of the state's overall economic recovery bringing back more jobs and revenue to businesses and communities. The economic activity would help people pay their bills and communities pay for much needed services. In 2020, the entire U.S. travel industry lost half a trillion dollars in travel related spending. Nationally, travel-supported jobs accounted for 65 percent of all jobs wiped out due to COVID-19. In Alaska, where she could point to over 50,000 direct and indirect jobs connected to Alaska's tourism, the return of Alaska's travel industry could help lead to Alaska's overall economic recovery.

Ms. Leonard recognized much had been done already by the legislature and the governor in supporting the return of large cruise ships to Alaska's waters in the coming summer. The appropriation of dollars for destination marketing by the legislature, the launch of the governor's direct tourism marketing campaign, and the effort to pass the Alaska Tourism Restoration Act by the congressional delegation were significant steps in helping reset Alaska's travel and tourism industry. She commended legislators' for their public service.

Ms. Leonard opined that the current dialogue and potential government shutdown created continued uncertainty. It would impact Alaska's travel and tourism industry and placed a serious pause on the economic recovery badly needed on the heels of the COVID-19 pandemic. Alaska's travel and tourism industry represented hundreds of businesses across the state who employed tens of thousands of Alaskans. She thought the visitor experience in the summer of 2021 would play a role in future traveler confidence sentiment. Alaska's reputation as a premiere travel destination was on the line.

Ms. Leonard relayed that ATIA supported conversations supporting a long-term fiscal plan for Alaska. She asked legislators to come together to help Alaska move forward on a path towards economic recovery. She thanked the committee for the opportunity to provide testimony.

2:47:14 PM

JIM MATHERLY, MAYOR, CITY OF FAIRBANKS, FAIRBANKS (via teleconference), indicated he was also a board member of the Alaska Municipal League (AML). As indicated in AML's June 16th statement to the legislature, AML was thankful the FY 22 operating capital budget was adopted. However, AML also expressed frustration over the failure of the effective date and the three-quarter vote needed to access the CBR and authorize the reverse sweep of critical funding needed by July 1st. The failure of those critical votes would severely destabilize and hamstring Alaska's local governments, residents, and the state. It would be a barrier to the recovery that the state needed.

Mr. Matherly addressed the effective date. The much needed federal American Recovery Act funding for communities, businesses, and non-profits would be further delayed while communities continued to struggle. He noted that the Division of Motor Vehicles (DMV) and title registration would be delayed and closed. He believed the Office of the Governor had provided legislators with a 10-page document listing the programs that would be impacted without a budget in place on July 1st. He would highlight some of the significant items that would impact communities.

Mr. Matherly was aware the state would be unable to process pass-through payments such as the fisheries tax revenue and payment in lieu of taxes (PILT). Community assistance payments would not be issued to communities anticipating Power Cost Equalization (PCE) payments and rural energy assistance would cease. Public broadcasting would be shutdown and there would be significant impacts to the fisheries industry as members had just heard.

Mr. Matherly opined that while HB 2002 sought to provide the July 1st effective date, it did not address the CBR and the reverse sweep vote.

Co-Chair Merrick interrupted the testifier and asked him to refrain from commenting on the three-quarter vote and the reverse sweep. The current hearing only dealt with the effective date clause.

Mr. Matherly concluded his testimony. He hoped a government shutdown would be avoided by legislators reaching an amicable agreement. He thanked the committee.

Representative Wool thanked Mr. Matherly for calling in and highlighting the fact that without the effective date clause the federal funds in the budget would not be disbursed. Although a shutdown would impact many people, the federal funds would also not be disbursed to municipalities.

Mayor Matherly thanked Representative Wool for all of his hard work.

Representative Josephson asked Mayor Matherly to send him comments on the three-quarter vote in an email. He wanted to hear his view on the matter.

Mr. Matherly would get them out later in the day.

2:51:57 PM

MEERA KOHLER, PREVIOUS EXECUTIVE DIRECTOR, ALASKA VILLAGE ELECTRIC COOPERATIVE (AVEC), explained that although she was retired, she continued to represent the cooperative on PCE matters. She had also been heading up a task force of the Alaska Power Association on PCE. She had been a player in the PCE Program since its inception in 1984. She explained that AVEC was a non-profit electric utility. Its communities received about 40 percent of all PCE payments that were sent out.

Ms. Kohler explained that many years ago, the PCE Program was chronically underfunded and for a decade and a half, she saw appropriations that forced reductions to the PCE rates of 25 percent or more. It was remedied when the PCE Endowment Fund was established in 2000 and was followed by funding appropriations that were fully supported by the legislature. Once the endowment achieved full funding 12 years later, the annual legislative battle to procure funds for PCE receded since funding for the program came from the dedicated funds that were created for that purpose.

Ms. Kohler would touch on the sweep briefly because it was critical to understand the impact was 2 years prior. Until 2 years ago the PCE Endowment Fund had not been jeopardized by the annual sweep that reverted various accounts to the CBR. The legislature had never failed to enact a reverse sweep to undo the process. In 2019, when the administration applied the sweep to the PCE Fund as well as to other funds that had not been previously swept, sweeping the fund removed the funding source for PCE and forced the Regulatory Commission to reset all PCE rates to zero. It was a terrible time for Rural Alaska.

Ms. Kohler explained that while PCE actually only covered 17 percent of the cost of providing electricity across the eligible communities, it actually represented about 40 percent of the electric bills for residential consumers and about 55 percent of the bills for community facilities like water and sewer plants and other critical basic infrastructure. Utilities had to either suspend issuing PCE credits or take the risk of continuing to post them while not knowing if they would be reimbursed or if they might be denied altogether since the program had been defunded and no one knew if payments would be retroactively applied. She indicated that Selawik Washateria, for example, used 25,000 kWH in the previous December. Without PCE, their bill would have been $11,500. After PCE their bill was $5,300.

Ms. Kohler suggested that communities with very limited revenue resources could not afford to lose PCE. Most would have to cut basic services drastically or layoff the few employees it had to cover such cost increases. At the end of the state's list of programs that would be shut down if the legislature did not pass the effective date for the budget, PCE payments would cease on July 1st. It meant that credits utilities already issued for the month of June would not be reimbursed. It meant that AVEC would have to carry a loan to the state for $1 million and an additional $1 million if the utility wanted to take the chance of continuing to provide the credits because they knew their customers could not afford a full bill of 55 cents or more per kWH. She urged the legislature to adopt HB 2002 and to take future action to prevent the loss of the PCE Endowment Fund. She thanked the committee for the opportunity to comment and made herself available for questions.

2:56:16 PM

MARCUS TRIVETTE, EXECUTIVE BOARD DIRECTOR, ASSOCIATED GENERAL CONTRACTORS OF ALASKA, FAIRBANKS (via teleconference), urged the committee to pass HB 2002 providing an effective date of July 1st to avoid a government shutdown. Alaska's private sector employers were in a precarious position coming out of a pandemic and in the midst of a recession. A government shutdown, even a partial one, would negatively impact his industry's ability to get work down costing time and money. Some examples of delays could include the ability to acquire permits through the Department of Natural Resources (DNR) or the Department of Fish and Game (DFG), the inability to get scales certified through the Division of Measurement Standards and Commercial Vehicle compliance within the Department of Transportation and Public Facilities (DOT), or the ability to get a notice of work from the Department of Labor and Workforce Development (DOL).

Mr. Trivette asserted that State government touched every facet of Alaska's economy and, his industry needed it to work properly to get projects done and to put Alaskans to work. Specifically, as it related to the construction industry, a week delay in July could cost the industry a month on its schedule later in the fall. He reported currently bidding projects which would result in putting Alaskans to work in the coming summer. However, if all of the different agencies the industry relied on were not functioning, it would have a negative impact. He asked members to consider the impacts of failing to get a budget passed with an effective date of July 1st. It would affect Alaska's government employees, the private industry, and private industry employees. He was available for questions.

Representative Thompson asked if certain projects could be delayed as long as a year as a result of not being able to obtain permits because of a government shutdown.

Mr. Trivette replied in the affirmative. He was aware that certain agencies were working hard to ensure that the staff was available to administer construction projects. However, the list of permits needed was long. Sometimes he might have an approach that was outside of the box of the permits already in place and revisions might be needed. He indicated that realistically, a two-week shutdown might result in postponing a project slated for July and August to September and October which would cost more. The worst case scenario would be losing an entire season.

Representative Josephson noted the capital budget items were not discussed in terms of any hold up of the appropriations by OMB. He asked if AGC was focused on any of the projects in the capital budget and whether Mr. Trivette had concerns about delays due to a shutdown.

Mr. Trivette responded that he could not speak on behalf of AGC relative to the capital budget in the present hearing. He was simply supporting the passage of HB 2002. He would be happy to discuss the subject in the future. He was focused on the impact of the lack of an effective date being passed.

Representative Rasmussen asked if Mr. Trivette had looked at what would happen if the state shutdown and his company continued with projects without permits issued by the state.

Mr. Trivette replied that he had not. It would involve a conversation internally with legal counsel and risk management. He explained that some of the permits the state administered had state and federal implications. It would be on a case-by-case basis. His company tried to do things by-the-book. It would be something he would have to weigh.

Representative Rasmussen appreciated him doing things by-the-book.

3:01:58 PM

ANGELA RODELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, urged members to take the steps necessary to pass a budget by July 1, 2021. The committee heard testimony about how the impacts touched every Alaskan in some way. To the extent they were affected, the dependency on the Permanent Fund (PF) for state government increased that much more, as it had to fill the gap created when the private sector was unable to perform. In the previous evening she learned that the Alaska Permanent Fund Corporation (APFC) was included on the list of essential functions of state government. She was pleased to find out that APFC's staff would not be included in the layoffs that might occur with a government shutdown.

Ms. Rodell clarified that the state still needed a budget. The Alaska Permanent Fund Corporation had a $50 million request for investment management fees as a supplemental for FY 21 needed to pay for performance in FY 21. She encouraged the legislature to get a budget done. She was happy to answer any questions about the fund itself. She could also walk through what the impacts would have been had the corporation been included in the layoffs. She removed it from her testimony when she heard APFC was included on the essential services list.

Representative Rasmussen was happy to hear that APFC was essential. She asked if a one-time overdraw facilitating a compromise for an effective date would be better than the government shutting down and staying within the percent of market value (POMV) draw.

Ms. Rodell could not speak to what the legislature's negotiations would require in order to have a fully functioning state coming out of a pandemic. She would highlight the discipline of the POMV over the past few years and would speak to what an ad hoc draw might look like.

Ms. Rodell relayed that the POMV was calculated based on 5 of the previous 6 fiscal year market value balances. If the state were to end the fiscal year on May 31, 2021, with the balance in the fund of $80.85 billion, the POMV for FY 23 would be $3.346 billion, $300 million more than for FY 22. The average market value that the calculation was based on was $66.9 billion. She emphasized that it would be a record high level and was the new average market value for a POMV calculation. The state was currently in uncharted territory.

Ms. Rodell continued that the value of the POMV provided the legislature some increased spending capability, some surety of revenue without windfall peaks and valleys that occurred with traditional revenue sources. In looking at the calculations, the ERA in the conference committee version of the budget had a balance of $19.8 billion as of May 31st. The POMV for FY 22 was about $3.1 billion which left an uncommitted portion of $12.2 billion. She left unrealized gains off the table. She reported that there was a move of $4 billion from the ERA to the principal of the fund in the FY 22 budget totaling $4.9 billion. The amount left in the ERA would be about $5 billion. If the legislature were to take an ad hoc draw of $1.5 billion, the amount in the ERA would equal $3.4 billion going forward.

Ms. Rodell noted several previous discussions about the importance of keeping 3 or 4 times the amount of the POMV in the ERA as a cushion. She reported that 3 times the POMV would be $9.3 billion. She wanted to show the magnitude of drawing down the ERA versus keeping money in the account. She pointed out she was not speaking to the investment affects and the uncertainty of continued ad hoc draws. Part of the value of the POMV was knowing a year in advance what the state's liability would be and managing accordingly. She hoped the information was helpful.

3:08:39 PM

Representative Rasmussen asked if it was better to leave the $4 billion in the ERA.

Ms. Rodell replied that she had never seen the PF corpus (which only grew through royalty deposits, inflation proofing, or special appropriations) have a balance of $46.9 billion. The fund totaled $80.5 billion and only $46.9 billion of it was saved in perpetuity for future generations. It meant that $33.6 billion was either subject to market volatility through unrealized gains or through appropriation by the legislature. She hoped the legislature recognized that as large as the fund was the parts were not equal. She emphasized that the $4 billion was an indicator that the only way the corpus of the fund would grow was through appropriations.

Representative Edgmon did not support overdrawing the PF. He asked Ms. Rodell to speak to the retrenchment of the fund in the prior year. He recalled a 20-day period where the value of the fund went backwards by about one-third. It caught him off guard and highlighted the volatility of the fund. He asked her to elaborate about what happened during that period in the previous year.

Ms. Rodell replied that in FY 20 as of July 1, 2019, the PF started at a balance of $65.8 billion. Over the course of the first half of the fiscal year through December the fund continued to grow as expected. In March 2020, the full effect of the pandemic hit the markets. Things were being shut down and the pandemic became very real in many ways. The fund dropped to a low of about $60 billion. She and other employees with APFC had not seen that swift of a draw down of the fund in their career. The market started to recover leaving a value of $64.8 billion at the end of FY 20 - a return of 2.0 percent. It was less than the balance of the fund at the end of FY 19 with a balance of $65.8. The state had drawn more out of the fund than it had made over the course of the year. Presently, the state had recuperated from the $60 billion in March 2020. The current year had been extraordinary. She did not think the state should count on the trend continuing.

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Representative Wool thought that unrealized gains made up a large portion of the fund balance. He explained the meaning of unrealized gain. He asked if $33.6 billion of the $80 billion were unrealized gains.

Ms. Rodell answered that it was but also included the balance in the ERA. It was not just unrealized gains.

Representative Wool highlighted that although the fund balance was more than $80 billion, until the assets were sold, it was not available cash. He noted someone mentioning it was a good year to take a little extra from the fund. He thought many legislators did not want to take more from the fund. He mentioned Callan presenting their 10-year projection. He asked for Callan's average return expectation.

Ms. Rodell replied that they had reduced their long-term 10-year expectation to 6.2 percent.

Representative Wool commented that if Callan's long-term projected return averaged at 6.2 percent and the POMV draw was about 5 percent, there was not much excess when accounting for inflation. He did not believe there was an available slush fund. He suggested it would be difficult to run state government with an under-draw. He asked, based on Callan's projections, if the state could have a year of a 2.0 percent return or even a negative return.

Ms. Rodell responded in the affirmative.

Representative LeBon asked how critical the CBR was to the cash management of the state. He also wondered how APFC interfaced with the CBR.

Ms. Rodell replied that his question would be better directed to Commissioner Mahoney. The Alaska Permanent Fund Corporation did not interface at all with the CBR. Rather, APFC worked with the Treasury Division on their draw requirements for cash. They tried to give APFC their schedule a year in advance. In July she expected to see the Treasury Division's anticipated draw requirements for FY 22. She reported that APFC transferred the final installment for FY 21 POMV draw of $492 million.

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Representative LeBon asked if it would be an effective tool to have short-term financing through a line of credit or a revenue anticipation note in order to enable APFC to continue to invest to maximize earnings.

Ms. Rodell was a fan of having every tool available to maximize financial returns to the State of Alaska. However they were not tools APFC could use but, they could benefit the Department of Revenue.

Representative Josephson thought Ms. Rodell's testimony suggested the legislature might have overreached slightly with the $4 billion transfer into the corpus. He gleaned from Ms. Rodell's comment that the legislature should have left 3 times the draw amount in the ERA. He asked if she meant to say what she said.

Ms. Rodell thought Representative Josephson was highlighting some of the tensions concerning leaving money in the ERA versus moving it over to the principle. She indicated there had not been any inflation proofing. The amount of $4 billion in FY 20 that acted as pre-funding of inflation proofing, especially if the fund entered higher inflationary markets, would be incredibly valuable going forward. She was merely trying to highlight that APFC could not do all things for all people and that choices would have to be made. She thought it would be helpful for the legislature to figure out where the prudent lines were as they contemplated moving forward.

Representative Josephson suggested that one of the things not discussed about the 5 percent draw was that it was a from of a spending cap. He wondered if the legislature should think of it as a spending cap.

Ms. Rodell replied that she thought of it as a spending cap because it gave the state a sure amount of revenue. She relayed that in thinking of how the state had historically crafted the budget, the uncertainty and volatility of the revenue picture made it difficult and created an interesting dynamic. The reserves were used to help fix the issue if revenues did not come to fruition. In the current case, with $3.3 million in the state's checking account without any other revenue measures in place, the amount of certainty was comforting. The state no longer had to worry about oil prices or decreased production. She felt that the state had moved into a different era in terms of thinking about revenue. She thought the smoothness and stability provided with the POMV were very important.

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Vice-Chair Ortiz noted Ms. Rodell speaking about the fund balance reaching a value of $65.8 billion on July 1, 2019. By March 2020, the balance had fallen to $60 billion. At the point the balance of the fund was $65.8 billion, he wondered how much more it had increased before it fell back. He wondered if $65.8 billion was the high point.

Ms. Rodell would have to get back to the committee with a response. She recalled that the fund increased in value towards the end of the calendar year. She would need to confirm the amount.

Representative Rasmussen thought her question might be best asked at the time Ms. Rodell made a closing statement.

Representative Edgmon asked about the sovereign wealth investor community. It appeared it had blossomed over the years. The Alaska Permanent Fund Corporation had been one of the market leaders in terms of innovation, discipline, and adherence to the prudent investor rule. He wondered if any other state or country was providing government services with sovereign wealth fund earnings.

Ms. Rodell indicated it was difficult to know with the Middle East, as they did not have the same sort of transparency rules in place. It was tough to know if they were overdrawing their funds. She was aware that many country-based sovereigns had used more earnings for pandemic relief. She noted that within the United States the sovereign funds in the country existed in the states of Wyoming, North Dakota, and Texas. She was unaware of any overdraws. Some states were looking at shifting the mission and purpose of some of their funds.

Representative Wool noted Ms. Rodell's previous comments about the unprecedented returns she had seen in her career. He asked if she would expect Alaska to have a negative year within the next 10 years.

Ms. Rodell had been surprised for the prior 3 years that the state had not experienced negative returns. She would not be surprised if the state encountered one in the following 10 years.

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Vice-Chair Ortiz asked if any analysis had been done regarding the impact of an overdraw for the current year and how to catch up.

Ms. Rodell responded that APFC had not done any analytics. She thought LFD had provided a variety of different scenarios. The state would have to make up the expected 6.2 percent in earnings along with the percentage made on the 6.2 percent and any earnings lost on the amount. The amount would be over and above what was forecasted.

Co-Chair Merrick thanked Ms. Rodell for coming before the committee.

Representative Rasmussen felt that it was unfortunate the bill was needed and that there might be a government shutdown. She compared the situation to her daughter wanting to touch the stove. She thought the legislature should be looking for a solution where everyone benefits rather than a lose-lose situation. She believed some of the issues needed resolution. She did not want to see a government shutdown. She supported getting an effective date passed as soon as possible.

3:33:15 PM

Representative Carpenter asked if HB 2002 would require a two-thirds vote to change the effective date.

Ms. Marx responded that the whole bill would need a two-thirds vote of the membership from each body.

Representative Carpenter appreciated the message from business industry leaders that stability was needed. The business community had been asking the legislature to act to provide stability for the state's finances. He thought the request had fallen on deaf ears for a decade or more. He suggested that the current bill was another legislative attempt to avoid coming up with a long-term plan. He believed the legislature should be supporting business through stability with timely budgets and a long-term fiscal plan. Producing consistently balanced budgets and low taxes were important things the business community wanted from the legislature. He noted the committee had heard of the costs related to a government shutdown. He could not deny a shutdown would cause significant pain for some folks. However, he posed the question about the lost opportunity costs related to not providing stable taxation, PFDs, and budget growth. He had heard from businesses who were questioning investing further in Alaska. The legislature continued to kick the can down the road. He was concerned with the inertia of not addressing the real issues.

Representative Carpenter continued that the current majority created a budget that needed to pass with a two-thirds vote of 27 members to be effective July 1st. He was asking that the legislature act in the current session to address systemic problems that his constituents and constituents from around the state had requested. He did not like being strong-armed into supporting something that had not addressed the real issues. He suggested having conversations about what it would take to address the state's problems. The people had been asking legislators to solve the problem for a very long time.

Co-Chair Merrick was aware of two members of the committee who had put proposals forward, including herself and Representative Wool, for a long-term fiscal plan. She encouraged all members to put any of their ideas on the table for consideration.

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Representative Thompson directed his question to Legislative Legal Services about whether the Senate would have to vote again requiring a two-thirds vote for an effective date.

Ms. Marx replied that the bill was a stand-alone piece of legislation requiring a vote of both the House and the Senate.

Representative Thompson asked if Ms. Marx was saying that the bill would have to be voted on by both the Senate and the House.

Co-Chair Merrick remarked that the vote was a two-thirds rather than a three-quarter vote.

Representative Thompson expressed confusion. He thought the Senate had already passed the effective date with a two-thirds vote and that the House needed to vote on the effective date provision with a two-thirds vote as well. He asked if Ms. Marx was saying that the bill would have to go to the Senate. He reiterated his confusion.

Ms. Marx indicated the bill would replace the failed effective date as a stand-alone bill. The legislature had other options to deal with the failed effective date in HB 69.

Vice-Chair Ortiz agreed with Representative Carpenter that the legislature needed a fiscal plan. A fiscal plan was needed when he first became a legislator in 2014 and in

2017 the House Majority put forth a fiscal plan which included a balanced budget. A significant effort had been made in trying to develop a fiscal plan. He was unclear why a plan had not been developed. He noted that the governor had called a special session in August where the legislature could arrive at a group compromise.

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Representative Josephson commented that he began his service as a legislator in 2015 at which time the state brought in $6 billion to its coffers and spent it. The crisis really began in the fall of 2014 when oil prices dropped significantly. The state had a new governor whose approach was to figure out a path forward but stay within the status quo. In June of 2015 he called luminaries together at the University of Alaska Fairbanks (UAF) campus. As a reflection of the work done at UAF, Governor Walker introduced a proposal that everyone should contribute - every industry and the people of Alaska. The legislature at-large rejected the plan with many committees unwilling to entertain the governor's bills.

Representative Josephson continued that in 2017, under the leadership of Representative Paul Seaton, the 4-pillar plan was introduced and included cuts, the POMV, oil tax increases, and an income tax. The House passed the entire bill. He thought the state would be far better off had the Senate entertained the bill. At the time, the Senate referred the bill to a committee because it was required. The committee met for a few minutes then the bill was sent to the floor. The plan was rejected. The percent of market value (POMV) was passed in the following year. There had been serious reform efforts made to no avail. He spoke of the governor not being able to get majority support for a large dividend, although he did on the Senate side. Yet, the governor's plan called for a super majority embedded in the constitution. He wondered how the governor would get 27 votes in the House and 14 votes in the Senate since he could not get 21 votes in the House and 11 votes in the Senate for a simple majority. He noted that it was not achievable in the following 6 days to win the super majority vote. He thought the testifiers had indicated what would happen with a government shutdown.

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Representative Wool shared Representative Carpenter's frustration. He came into the legislature the same year as Vice-Chair Ortiz and had been working on the state's fiscal issues since the beginning of their respective terms. He reminded members that in 2010 oil revenue was over $10 billion, and in 2020 it was just over $1 billion. Such a revenue fall had repercussions. The legislature had been scrambling since the fall of 2014 to resolve the state's fiscal crisis. The legislature tried to pass an income tax and other various measures without success. In the meantime, the legislature had drawn down the savings accounts.

Representative Wool spoke of the difficulty of getting both bodies and the governor to agree on things. The revenue shortfall had been in existence for a significant period and, the POMV had supplied a steady stream of income. He suggested that a fiscal plan balanced budget meant not spending any more money than what was earned in revenues. In order to produce a balanced budget additional revenue, additional reductions, or a combination of the two might be necessary. He noted that he considered the PFD to be a budget item. He thought the legislature had cut the budget significantly. A few years prior the governor attempted to cut the budget by about $400 million to $500 million and the public reacted strongly in opposition.

Representative Wool explained that the legislature introduced HB 2001 [Legislation passed in 2019 - Short Title: APPROP: ERA/OPERATING/FUNDS/OTHER] that restored several of the governor's reductions. He thought the legislature had reached some equilibrium on the budget. He suggested the state had enough to pay for the budget minus the PFD. People were arguing about the size of the PFD. Any amount, without a rosy picture of high oil prices that the state was currently enjoying, revenue would be needed. The governor agreed and suggested $200 million in reductions in the following year. He was glad the governor suggested another special session in August because he used the word "revenue." The governor was acknowledging the need for other sources of revenue. He argued that it was necessary to have the conversation about revenues. He hoped the governor would sign a bill passed by the legislature. He reemphasized the need to bring in additional monies in order to balance the state's budget. Different legislators had different views on where additional revenues should come from or where to apply additional cuts. Many legislators had tried for many years to move a solution forward. He had introduced several pieces of legislation to solve the state's fiscal crisis. He suggested that perhaps when the state's situation became more dire, the legislature would work on the issue. However, ironically whenever the legislature was about to address the issue the price of oil jumped up and the stock market went up taking away a sense of urgency.

Representative Wool relayed that federal dollars were coming to the state in the billions in the present year and more funding was expected for the following year. He opined that the legislature needed to think long-term and realistically. He reiterated Ms. Rodell's comment about the possibility of a negative return year in the near future. He thought the legislature should prepare for a rainy day and do its work. He hoped the legislature could craft something in August 2021 that would glean support.

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Representative LeBon looked forward to the special session in August. It was timely to have the discussion, looking down the road, about the needs for essential state services such as public education, public safety, roads, and the University. He had heard wants from his constituency including a return on investment to the people for the PF. He argued that the PFD was part of Alaska's culture and the state's financial picture. Alaska expected a return. He thought the challenge was how to balance needs and wants. He suggested that the discipline of holding to the POMV draw amount was how to protect the long-term interest of a public purpose endowment for generations to come. He believed he had a fiduciary responsibility to see to the interest of Alaskans yet unborn.

Representative LeBon noted his reluctance to overdraw the ERA. He had staked out his position over the previous several years. The legislature needed to address the question of how to take care of the future by also meeting the needs of the present. He suggested it was a heavy lift. It might result in a combination of a rewrite of the PFD formula. The formula had existed for many years and it was written in the early 1980s. He thought people needed to recognize that Alaska's economic condition had changed. In 1982, when the formula was written, there were 2 million barrels of oil going through the pipeline. It was not the case presently. It was down under 25 percent of capacity.

Representative LeBon continued that unless the state were to see the price of oil jump to $200 per barrel, the state would have to adjust. The state could try to put more oil in the pipeline. There were development opportunities occurring. He noted a couple of resources currently in the development phase which would not result in oil in the pipeline for a while. He suggested that the legislature needed to be realistic about what it could do and understand the balance of needs and wants.

Representative LeBon believed the state was at a crossroads. He thought the legislature was past the option of kicking the can down the road. The issue had to be dealt with at present. He looked forward to seeing everyone in August to deal with the issue. It would not help if the government were to shut down on July 1, 2021. He emphasized that it would be a big mistake. He would not be party to a shutdown and urged all of the members of the Alaska State House of Representatives to vote the effective date allowing the budget to be delivered to the governor for his review and signature.

Co-Chair Merrick thanked members for the respectful conversation.

HB 2002 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

3:56:43 PM

The meeting was adjourned at 3:56 p.m.