

HOUSE FINANCE COMMITTEE  
January 21, 2022  
1:32 p.m.

[1:32:55 PM](#)

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 Bryce Edgmon  
Representative DeLena Johnson  
Representative Andy Josephson  
Representative Bart LeBon  
Representative Sara Rasmussen (via teleconference)  
Representative Steve Thompson  
Representative Adam Wool

MEMBERS ABSENT

Representative Ben Carpenter

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division

SUMMARY

PRESENTATION: FY 23 FISCAL OVERVIEW LEGISLATIVE FINANCE DIVISION

Co-Chair Foster reviewed the meeting agenda.

^PRESENTATION: FY 23 FISCAL OVERVIEW LEGISLATIVE FINANCE DIVISION

[1:34:18 PM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, provided a PowerPoint presentation titled "Overview of the

Governor's FY23 Budget," dated January 21, 2022 (copy on file). He reviewed the presentation outline on slide 2:

- Update on Fiscal Situation
- Legislative Finance's FY23 Budget Baselines
- Governor's FY23 Proposal and FY22 Supplementals
- Long-Term Outlook and Governor's 10-Year Plan
- Federal COVID-19 and Infrastructure Funds

Mr. Painter began with an update on the state's fiscal situation on slide 3 and reported that the current financial situation was much improved from the previous year. He detailed that the record investment performance in FY 21 helped the Permanent Fund's values and the state's retirement system. The current high oil prices were helping the state's revenue situation. The Department of Revenue (DOR) fall revenue forecast called for \$1 billion more unrestricted general fund (UGF) revenue in FY 22 than the spring forecast and about \$800 million more in FY 23. Before any supplementals there was a \$428.6 million pre-transfer surplus in FY 22. He highlighted the surplus was over \$1 billion after the use of the Statutory Budget Reserve (SBR) and the American Rescue Plan Act (ARPA) funds for revenue replacement. He noted the SBR and ARPA funds did not really reflect the ongoing size of the surplus or deficit, but the two sources made more money available with a majority vote without having to access any state savings.

[1:36:09 PM](#)

Mr. Painter turned to a graph showing revenue over the past decade on slide 4. He highlighted that the last year the state had a balanced budget was FY 12 and it appeared there may be a balanced budget in FY 22. The chart showed revenue had declined and reached a low in FY 17, followed by a slight increase and subsequent drop. He reported that revenue had increased and was currently around the level seen in FY 14 at approximately \$6 billion. He highlighted that in FY 14, the state had been running a substantial budget deficit, whereas in FY 22, the state would be running a substantial surplus. He explained that not only had revenue increased, but the state was spending much less than it had around FY 14.

[1:37:10 PM](#)

Mr. Painter advanced to slide 5 and discussed that DOR had changed its oil price forecast methodology in the current year. He explained that until 2019, DOR had used a "modified Delphi" approach based on the average of predictions made by a group of stakeholders including state economists, Legislative Finance Division (LFD) staff, and university staff. He explained there had been problems with a timing lag between forecasting session and forecast release, causing DOR to frequently diverge from the method. Additionally, the methodology was not transparent, no outsider could validate the forecast. He expounded that LFD had participated, but it did not know other stakeholder's predictions. He detailed there had been no way anyone could identify whether it was a good or bad forecast.

Mr. Painter continued to review slide 5. He explained that starting in 2019, DOR began using the futures market (based on the international benchmark Brent crude) for the first two years and then held the price flat, adjusted for inflation going forward. He elaborated that DOR had determined at the time that the methodology was no less accurate and potentially more accurate than its prior forecast. The methodology was also transparent. He detailed that LFD could look at the futures market to determine how DOR had come up with the price. He believed transparency was an improvement. In 2021, DOR had done more statistical analysis and found that using the futures market for more years improved accuracy, rather than following inflation. Starting in the fall 2021 forecast, DOR used the futures market through FY 29 and had found it to be the most accurate method. He stated that LFD had generally been supportive of the changes because the goal seemed to be to improve transparency. Additionally, the method was driven by data indicating the new methodology was more accurate over the long-term. He added that DOR had consulted LFD throughout the processes.

[1:39:59 PM](#)

Representative Wool asked if the futures market price reflected the price a person would pay at present for oil to be delivered in 2029.

Mr. Painter replied, "Basically, yes." He elaborated that much of pricing was speculation and not necessarily the people who owned tankers. He clarified that the futures market was not actually a future prediction of oil. He

explained there may be some inherent biases in the futures market that made it a bit different than a forecast. He explained it was the best analog available, particularly because Alaska North Slope (ANS) crude was not internationally traded or forecast. He thought DOR's analysis showed the futures market was more accurate than using analyst predictions and other similar methods that were dated. He agreed the futures market was a speculation game and did not really try to predict the price.

Representative Edgmon referenced DOR's intention to update its forecast on a monthly basis. He asked if he had heard the Office of Management and Budget (OMB) director [Neil Steininger] had stated the previous day that the monthly forecasting would feed into the 10-year projection.

Mr. Painter replied that he could not speak for the administration, but it was his understanding DOR was using the monthly forecasting for the fiscal model posted on the department's website. He continued that the official budget would be built on the fall forecast and updated when the spring forecast came out. He did not believe DOR intended to update anything else with the monthly amounts other than the DOR fiscal model.

Representative Edgmon thought the monthly information would be confusing when it was provided in addition to the spring and fall forecasts.

Mr. Painter responded he could see both sides, where there was an advantage to having the most updated information even if it was a little more confusing to have to change. He considered whether out of date information should continue to be used when things were changing rapidly, merely because it was what everyone was used to. On the other hand, ideally, the state would not be watching the oil market "this closely" to make fiscal decisions, because oil is a volatile commodity. The fact that oil revenue may change by hundreds of millions of dollars from month to month illustrated the state should not be budgeting that close to the line. For example, the state should not be saying a \$27 million surplus was sufficient to have comfort. He stated that having the updated information may be useful to know the margin but spending every penny of a volatile commodity would always be very risky. He could see where there would be problems if people tried to do that with the new numbers [provided monthly by DOR].

1:43:57 PM

Representative Edgmon believed the legislature needed to be mindful that any change in the monthly numbers should not be used to project out through the remainder of a fiscal year. He noted there could be downward or upward trajectory.

Co-Chair Foster stated it was a recurring question. He stated that whatever the state ended up doing should be consistent.

Representative Rasmussen asked if LFD had any data about the income on a monthly basis from prior years and the oil price at the time. She was interested in gathering information to determine whether there was a trend. For example, if oil prices tended to be higher in the second quarter and lower in the first quarter. She thought it could help legislators going through the budget process. She asked if the governor's proposed budget spent down to a close margin. She stated her understanding there was a bit of a surplus [under the governor's proposed budget].

Mr. Painter answered that oil prices did not have seasonality, whereas production did. He believed looking at revenue on that basis would show some seasonality driven by production. He relayed that LFD would work with DOR to follow up with information. The governor's budget had a post-transfer surplus of \$26.7 million in FY 23 and did not access the Constitutional Budget Reserve (CBR) or any other fund as a stopgap. Any gap that happened to occur later in the year could be addressed via the supplemental budget. He stated that the governor's FY 23 did not build in much of a margin based on the fall forecast; however, based on the updated numbers there was a significant margin. He elaborated that in FY 22, the governor's budget had a surplus of about \$113 million. He stated given the higher oil prices and the fact that FY 22 was over halfway over, the surplus was likely close to sufficient. However, the \$26.7 million equated to [an increase or decrease in oil of] about \$0.50 per barrel, which did not provide much room for oil prices to move and make the target without a backstop. In the past, the CBR had been used as backstop if a deficit opened up. He added that the governor was not seeking that language in the FY 23 budget.

[1:47:18 PM](#)

Representative Rasmussen asked if the legislature could put backstop language in the budget to provide more flexibility if there was a substantial change in oil prices. She asked if it would require a three-quarter or two-thirds vote.

Mr. Painter replied that using funding from the CBR would require a three-quarter vote. He explained that adding the language to the budget would be essentially the way the budgets had been done up until the last year. The CBR would act as a deficit filler and backstop fund.

Mr. Painter moved to a chart reflecting an ANS price forecast comparison on slide 6. The blue line represented the official fall forecast and the green line reflected DOR's previous forecasting methodology that increased with inflation. He pointed out that the green line was in line with the current forecasts for a couple of years and was then significantly higher because the current expectation in the futures market was that prices were on a downward trajectory after the next several months. The red line reflected the futures market dated January 11, 2022. He noted that DOR had used futures market data from January 13; therefore, the numbers were very close but not identical. Prices were higher in the futures market, but the futures market anticipated the current pricing was passing and indicated by FY 25/FY 26 there was no change from what the fall forecast had shown before. He highlighted that the market seemed to indicate the current higher oil prices may not last.

[1:49:50 PM](#)

Mr. Painter turned to slide 7 and addressed a chart showing the UGF budget and revenue from FY 12 through FY 23. He noted the bars on the chart reflected spending and the area behind the bars indicated revenue. He highlighted that FY 12 was the last year with a surplus and deficits began in FY 13. There was a surplus in FY 22 prior to supplementals. He relayed that the governor's supplementals would take the budget back to a deficit situation. There was a deficit in FY 23 that was filled with American Rescue Plan Act (ARPA) revenue replacement. He explained that in FY 14 when the state had revenue similar to the current level, the budget had been \$2 billion higher, resulting in large deficits. The budget was now roughly balanced at that level. He

stated there had been a significant change in the spending line even as revenue had mostly recovered with the help of the POMV draw.

Vice-Chair Ortiz asked why there had been a large drop in statewide expenditures since FY 15.

Mr. Painter answered the drop resulted from two principal reasons. He explained that an additional contribution of \$2.3 billion above the normal cost had been made to the state's retirement system in FY 15, which had greatly reduced the cost of retirement. The second reason was oil and gas tax credits based on a percentage of production tax revenue. He detailed that during years with high oil revenue, there had been tax credit purchases ranging between \$500 million and \$700 million. In years with low revenue, the number was down below \$100 million in many of the years. He explained the result had been much smaller statewide items as well.

[1:52:09 PM](#)

Mr. Painter turned to slide 8 and showed a chart reflecting the CBR and Statutory Budget Reserve (SBR) fund fiscal year end balances from FY 12 through FY 23. The red portion of the bar reflected the SBR, and the blue portion reflected the CBR. The blue checkered section of the bars reflected the portion of the CBR due to the FY 21 sweep, which was not reversed in the FY 22 budget. He explained that LFD estimates were slightly lower than OMB's because LFD had not updated the information since the previous year. He explained that LFD was waiting for audited numbers from the Division of Legislative Audit. He detailed that OMB had used pre-audited numbers. He noted that LFD had used pre-audited numbers the past year, but the numbers had turned out to be pretty far off. The LFD chart showed about \$1.2 billion in the CBR. He reported that a bit over \$400 million was due to the FY 21 sweep. The chart separated out the information to clearly show the impact.

Representative Edgmon referenced the [ongoing] conversation about how much should be in the CBR. He recalled that the former LFD director David Teal had testified around 2012/2013 that the balance in the CBR should not drop below \$5 billion. He stated that the number had subsequently come down. He highlighted there was currently a conversation about a balance of \$800 million. He asked for verification

that if the oil revenue projections did not pan out, the CBR would be the cushion. He remarked that in the conversation about a fiscal plan, he had not heard what the appropriate amount of savings in the CBR may be. He asked about the desired ratio of savings to expenditures. He asked if LFD had contemplated putting something forward (possibly in statute) specifying that the CBR should be at a specific level in comparison to state spending.

Mr. Painter replied that LFD had looked at what other states had in their rainy day funds. He noted it was not really applicable because their revenue was much more stable. He highlighted that Minnesota tied its reserve balance target to the expected volatility of its revenue. He elaborated that Minnesota specified it should have enough in savings so that 95 percent of the time it could get through the next two years on savings accounts without making any policy changes. He relayed that LFD had run its own version of the method the past year to determine how much money would be needed in Alaska given its much higher volatility. He explained that Minnesota's revenue was based on broad-based taxes and did not have much volatility. At the time, it had been very difficult to come up with a number for Alaska due to the large structural deficit.

Mr. Painter offered that because the state's budget was closer to balanced, LFD could run the numbers again. He believed it depended on the policy objective. For example, he considered whether the determined amount should be a multiplier of the budget or based on expected volatility. He noted that the constitution's provision for the CBR did not have a target balance. The provision specified the fund should be paid back in full. He considered it may be that having \$13 billion in the CBR was never really a desirable objective. He stated Representative Edgmon was right that it may be reasonable to consider other values as a more reasonable target for the CBR based on the size of the budget or expected revenue volatility.

[1:56:59 PM](#)

Representative Rasmussen kept hearing that more of the state's budget was now being funded through the structured draw. She asked if it was considered to be a more stable revenue stream because of its predictability. In the context of a rainy day fund, she asked whether any other states had an account like the Permanent Fund.

Mr. Painter confirmed that POMV draw greatly reduced the state's revenue volatility from the prior reality where petroleum accounted for the majority of incoming revenue. He noted that investments themselves were a fairly volatile commodity. He remarked that state revenue was diversifying and there was a more stable amount due to the POMV; however, there was still quite a bit of volatility remaining compared to other states; however, Alaska's current volatility was much less than it had been a decade back. He relayed that the other states did not really have a permanent fund. He stated that North Dakota had a fund that was kind of similar. Any somewhat similar funds in other states tended to be designated to particular purposes. He believed the closest was North Dakota. He elaborated that the fund in North Dakota was a little behind Alaska's; the fund was smaller, and the state was just beginning to use it for any purpose. Texas also had a sovereign wealth fund. He relayed that none of the funds in other states came close to Alaska's when compared to the size of its budget.

Representative Rasmussen provided a scenario where the CBR was depleted and there was a budget deficit. She asked what other fund sources would remain apart from the Permanent Fund Earnings Reserve Account (ERA).

Mr. Painter replied there were designated savings accounts, albeit fewer since the sweep occurred. He noted that the two larger designated funds used to be Power Cost Equalization (PCE) and the Higher Education Investment Fund; however, PCE was the only remaining of the two. The PCE was the largest of the remaining funds apart from the CBR and ERA. He noted there may be a small amount in the SBR. He added other policy choices could be made about reducing expenditures mid-year.

[2:00:08 PM](#)

Representative Rasmussen asked for the threshold to access the CBR money. She asked for the threshold to access the ERA and other funds.

Mr. Painter replied that a three-quarter vote was required to access the CBR, whereas a simple majority was required to access the other accounts. He noted that the principal of the Permanent Fund could not be drawn upon.

Vice-Chair Ortiz looked at the note on slide 8 showing a \$1.2 billion balance in the CBR in FY 23 with \$400 million due to the FY 21 sweep. He asked whether the \$400 million included the higher education learning fund.

Mr. Painter responded that the vast majority of the \$400 million was from the higher education fund.

Vice-Chair Ortiz asked for verification the funds had been swept into the CBR.

Mr. Painter replied that the funds had effectively been swept on June 30, 2021, but from an accounting perspective they were waiting for the audited financial reports to transfer the correct amount. From a legal perspective, the transfer had occurred on June 30, 2021.

Representative Wool referenced a lawsuit related to the higher education fund. He asked if the ruling went a certain way, the \$400 million would leave the CBR.

Mr. Painter answered affirmatively. He elaborated that LFD estimated about \$800 million, potentially a little higher. He believed OMB's estimate was about \$1 billion based on more lapsed funding occurring the previous year than predicted.

[2:02:20 PM](#)

Representative LeBon reminded the committee that the previous session the House passed a bill intended to give the commissioner of DOR the flexibility to secure short-term financing if needed. The intent of the legislation had been to give DOR another tool to bridge revenue shortfalls through a bank line of credit or a revenue anticipation note. He remarked that there was certain predictable funding coming from the Permanent Fund that could be planned for. He explained that a revenue anticipation note would leverage the receipt of cash into the future by using the funding at present to fill short-term gaps that may arise. He recalled that \$2 billion had been stated as the right amount of working capital in the CBR when he had been elected three years earlier. He noted that at one time the number may have been \$5 billion. He stated that if the [short-term financing] legislation was signed into law, DOR would have another tool to smooth out volatility in its

cash flow. He hoped it became law because the tool would be valuable.

Representative Johnson asked if it was fair to say that revenue was based on a projection and the budget was built on that projection. She was hearing from some committee members who were not comfortable with the increased revenue projection from the administration.

Mr. Painter answered it was where prices were at present, and when building a budget, it was probably the number to use. He cautioned that because oil was volatile and the state no longer had the savings balances it once had as backstops, it was necessary to keep volatility in mind when building a budget. He looked at slide 7 and explained that in past years with \$10 billion in revenue and \$9 billion of the amount coming from oil, the state had \$12 billion in savings. He explained that in FY 13, when there had been a deficit, the budget had been built on \$8 billion in UGF revenue that turned out to be \$7 billion. He stated that most people did not realize the state had a deficit that year and it had not mattered that much because there had been so much in savings. The state had known oil would be volatile but there had been a lot of money in the SBR to pick up the slack if needed.

Mr. Painter explained the state was in a different situation at present where it did not have the large savings account; it had the ERA. He encouraged the legislature to be more cautious than legislators were a decade back when there had been ten times as much in savings. He encouraged the legislature to try to recognize that if oil remained high in FY 23, the funds could be spent in the supplemental the following year. He stated it was the spirit of the governor's budget where many of the capital expenditures were moved to FY 22 to take advantage of the higher revenue. The idea was "don't increase your base based on a volatile commodity."

[2:06:46 PM](#)

Representative Johnson saw that the Permanent Fund earnings had lost close to \$1 billion in several days. She recognized volatility in the market and oil prices, which was the reason to rely on the state's experts making projections. She noted that the projections would not always be perfect but should not be discounted. She would

not do that in her personal business. She asked if Mr. Painter was saying a transfer should be made to the CBR.

Mr. Painter clarified that he was not making a specific policy recommendation, which was not his role as nonpartisan staff. He recommended being mindful of volatility and uncertainty in some portions of the state's revenue. He advised accounting for the situation in some way. For example, not spending all of the funds, having backstop funds from another fund, or leaving money on the table to spend in the supplemental the following year. He noted the latter option had been a common practice in the mid-2000s during the revenue spike. He stated it was another strategy that could be used to deal with volatility. He was not making a specific recommendation; it was up to the legislature to decide.

[2:09:04 PM](#)

Co-Chair Foster highlighted that either a press release or an email from the administration's press team had specified that the monthly forecasts from DOR (showing a larger surplus than the original forecast) were not subject to the same data collection rigor that was used in creating the fall and spring forecasts. He noted it was a word of caution on whether or not to rely on the monthly forecast.

Representative Rasmussen asked for the total state spend 10 years back when there had been \$12 billion in the CBR. She asked for the balance of the Permanent Fund at the time.

Mr. Painter turned to slide 7 and answered that the total UGF budget in FY 12 was just under \$8 billion. He relayed there had been over \$10 billion in UGF revenue. He noted the numbers were based on current fund classifications. He pointed out that the dividend had not been considered UGF at that time. He would follow up with the Permanent Fund numbers.

Representative Rasmussen stated that ten years back the UGF budget was almost double its current size. She remarked that spending levels had been brought down significantly. She reasoned the state did not need as much money in savings as it did a decade back because the budget was half the size.

Mr. Painter answered it was true to some extent, although a lot of the difference was in the capital budget, which could vary from year to year. He explained that the operating budget was fairly comparable. The graph [on slide 7] showed how little agency operations changed. He elaborated they had peaked in FY 15 and had been a little higher in FY 13 than the current spending, but only by a couple hundred million dollars. The primary difference between the budget at present and ten years back was the size of the capital budget. He explained that in those past years, the capital budgets had been \$1 billion to \$2 billion UGF, which were not levels that would be contemplated at present.

[2:12:48 PM](#)

Representative Rasmussen stated there were UGF dollars being committed that were almost half of the current expenditures.

Mr. Painter estimated it was about two-thirds, but agreed it was significantly lower.

Representative Edgmon thought the record capital budget of approximately \$2 billion UGF had occurred around 2012 or 2013. He stated it was difficult to compare spending at that time to current spending. He observed the state lived in a world of oil price volatility that had been the state's good and bad fortune for many years. He added stock market volatility to the list after the passage of SB 26 [POMV draw legislation] in 2018. He highlighted there was also political volatility regarding the Permanent Fund Dividend, which created expectations the legislature needed to grapple with in ensuing years. He emphasized the issue drove what was happening in the building and had been for some time. He wanted to add the topic to the conversation.

[2:14:26 PM](#)

Mr. Painter advanced to slide 9 titled "LFD's Budget Baselines." He discussed that a couple of years back the legislature started the practice of talking about the budget in terms of a baseline for each year, rather than comparing to the prior year in order to have a clean starting point. He stated it was similar to the [budget] subcommittee process that did not start with the previous year's budget but used the adjusted base that removed one-

time items and added salary adjustments to try to get rid of year-to-year distortions. He stated LFD had created its own baselines, which were similar to the concept, but apply to the entire state budget. He reviewed the baselines:

- Two baselines to consider: current policy and current law. These are intended to create a "clean" starting point for the current budget rather than previous years that are distorted by one-time items.
- Both scenarios use a slightly modified version of the FY22 Adjusted Base for agency operations.
- Current policy assumes roughly \$1,100 PFD, continued partial funding of school debt, REAA Fund, Community Assistance, and Oil and Gas Tax Credits.
- Current law assumes statutory PFD, full funding of school debt, REAA Fund, Community Assistance, and Oil and Gas Tax Credits.
  - Statutory PFD is projected to be about \$2.76 billion, paying about \$4,200 per recipient.
  - Fully funding all statewide items that were partially funded in FY22 are estimated to be about \$167.9 million UGF more than maintaining FY22 funding levels.

Mr. Painter elaborated that for statewide items, LFD assumed the same percentage funding achieved the previous year where there had been some vetoes to statewide items and some that were impacted by the failure of the CBR vote. The current law assumed the items were all fully funded. Excluding the statutory PFD projected to be \$2 billion, the difference between the two scenarios was about \$167.9 million.

[2:16:13 PM](#)

Mr. Painter moved to a table on slide 10 reflecting agency operations changes from FY 22 to FY 23 baseline. He relayed that in the baseline for agency operations there was quite a bit of downward pressure on the budget, mostly due to changes in retirement. He elaborated that SB 55, passed by the legislature the previous year, moved a portion of retirement funding to agency operations budgets before more of it was captured in statewide items. He highlighted that \$29.7 million UGF of reductions were in the current budget because of the investment performance allowing lower contributions. He explained that the "on behalf" rate went from 30.11 percent to 24.79 percent. Additionally, when the

legislature passed SB 55, many agencies had been uncertain how much non-general fund sources they could collect and could not immediately build it into rates they were charging. He furthered that in the current budget much of the UGF given to agencies had been changed to other fund sources to fully utilize federal and other fund sources, which saved another \$14.7 million. Between the investment performance and fund source changes, there was an "off the bat" reduction of \$45 million in the budget due to retirement.

Mr. Painter continued to discuss LFD's budget baselines on slide 10. He highlighted a budget reduction of \$18.7 million due to the lower projection for the student count in public K-12 schools. Much of the situation was due to uncertainty about the pandemic and continued movement to correspondence school, which received a lower rate. Additionally, several districts were under the hold harmless provisions as students transitioned from brick and mortar schools to correspondence. He noted schools received a declining amount over time under the hold harmless provisions. He elaborated that depending on how things went with the pandemic in the next year, the situation could change substantially if the number of students in classrooms significantly increased.

Mr. Painter continued to address slide 10. There were some contractual changes, mostly health insurance. He stated that the rates were going up for many state employees. There was a removal of one-time items. All of the items net to a reduction of \$65.8 million from the previous year to the current year, prior to talk of any policy changes. He relayed there was substantial downward pressure on the budget from the items [on slide 10] that provided a much lower starting point for the budget process than the previous year.

[2:19:02 PM](#)

Mr. Painter briefly addressed statewide items detail on slide 11. He believed the current policy scenario was slightly confusing because of items that had happened "oddly" the previous year. He explained that the CBR vote failure left school debt reimbursement and oil and gas tax credits partially funded. The governor had vetoed UGF to community assistance and the Regional Educational Attendance Area (REAA) fund. The LFD baseline left the

percentages of funding in the current policy scenario and current law assumed all of the items were paid out to their statutory level.

Mr. Painter looked at the current policy and current law scenarios for FY 23 on slide 12. He explained that under the current policy budget, with the \$1,100 PFD, there would be a surplus of about \$750 million. Under the current law budget with the statutory PFD, there would be a deficit of about \$1.4 billion. He remarked that when considering whether the state had a structural deficit, it depended on what a person considered as the baseline. He detailed that if the statutory PFD was still the baseline, there was still a significant structural budget deficit even with the higher oil price expectation. He elaborated that if some other PFD formula was contemplated, it could eliminate a structural budget deficit. He reiterated that based on the current statutes there would be a structural budget deficit regardless of the price of oil.

Representative Wool looked at slide 12 and observed that before factoring in the PFD, the current policy and current law scenarios were similar at \$4.4 billion and \$4.6 billion respectively. He remarked the PFD skewed the subtotal to a surplus or deficit. He noted he had recently heard it mentioned that the exemption for property tax for senior citizens was a law that was not followed, thus LFD did not consider it in its policy versus law discussion. He remarked the PFD law had not been followed in some years. He wondered when LFD would exempt the PFD from the current law baseline scenario.

Mr. Painter replied there was some arbitrariness regarding which statutes LFD included in the current law scenario. He stated that things that had not been funded in decades fell off [the list of items to include]. He cited the property tax [mentioned by Representative Wool] as an example in addition to the former longevity bonus program that had been unfunded during the former Frank Murkowski administration. He confirmed that at some point LFD had to make a call to drop things from the baselines. He did not believe they were ready to make the call on the PFD. He stated if the situation persisted for another decade, the PFD may be dropped from the scenario.

Vice-Chair Ortiz looked at the PFD line under the current law scenario showing \$2.7 billion. He asked what the deficit would be under the governor's 50/50 split scenario.

Mr. Painter answered that the 50/50 scenario was not included in either scenario because it was not law or policy at present. He estimated the scenario would be about \$1 billion less. Under the current law scenario with a 50/50 plan, the budget deficit would be similar to the governor's budget at about \$400 million.

Co-Chair Foster looked at the current policy surplus of \$752 million on slide 12. He asked if the information took ARPA funds into account. He asked if the governor's current budget used \$375 million in revenue replacement.

Mr. Painter replied that the ARPA funds had not been considered in either of LFD's scenarios. He explained that while the funds had been used the previous year, the funding was temporary and would not be built into the baseline. He relayed that using ARPA for revenue replacement would change the numbers [on slide 12].

[2:23:48 PM](#)

Mr. Painter advanced to slide 13 and discussed the governor's FY 22/FY 23 budget compared to LFD baselines. He reported that for agency operations, the governor's budget was \$80.1 million above the LFD baseline. He noted the committee had heard from OMB the previous day that the governor's budget was up \$16 million or \$17 million from the previous year [note: Mr. Painter revised this number to \$14 million on slide 15 later in the presentation]. He stated it was because the administration had the "winds at their back" of items like SB 55. In terms of policy changes, the governor's budget [for agency operations] was up \$80 million. He noted the figure was an increase of about 2.1 percent, which was in line with inflationary growth. The governor's budget for statewide items matched the current law scenario and fully funded the items. He highlighted that the governor's proposed capital budget was substantially lower than the previous year and fell below LFD's scenario by \$88 million. He noted part of the difference was that the governor's budget funded items in the supplemental and other ways.

Mr. Painter continued to review slide 13. The governor's 50/50 PFD scenario was roughly in the middle between the current policy with an \$1,100 PFD and the current law, which would cost another \$1.084 billion. The governor's budget resulted in a \$348 million pre-transfer deficit.

Mr. Painter paused to explain why LFD used the pre-transfer deficit as opposed to the post-transfer deficit. He highlighted that up until a couple of years back, when the legislature was building its budgets with deficits, there had been years where the deficit had been \$3 billion or \$4 billion, and it had been determined that whatever the deficit was would come out of the CBR. For various reasons, over the past couple of years, things had been done differently given the risk the CBR vote would fail. He explained that instead of using the CBR as a deficit filler, the budget would directly spend from the CBR or SBR, with the result being a balanced budget. The practice had been used two years back where one-quarter of agency budgets had been directly funded out of the CBR. He noted a similar method had been used the in the past year with SBR funding.

Mr. Painter explained there was not really a difference between saying a \$3 billion deficit would be filled with funds from the CBR versus transferring \$3 billion from the CBR into the budget. He viewed the two scenarios as identical. He pointed out that either of the options resulted in a deficit, no matter how the budget drew from savings. He believed it was important to understand whether the state had a balanced budget or not, which was the reason LFD used the pre-transfer deficit. He noted it included ARPA revenue replacement, which was mechanically a fund transfer (the funds were transferred into the General Fund and then spent out of the General Fund). He furthered that OMB showed spending out of the SBR directly or spending ARPA revenue replacement as revenue in its fiscal summary. He explained that LFD did not believe the method comported with the purpose of the deficit number. He explained that by constitution, Alaska's budget had to be balanced.

Mr. Painter explained that the conversation about the budget deficit was really about ongoing revenue to ongoing expenditures, which was the information the pre-transfer number tried to capture. He explained it was the reason LFD's baselines showed the governor's budget with a deficit

of \$348 million made up with ARPA revenue replacement. Whereas OMB viewed the budget as balanced. He added that higher oil prices would result in a surplus regardless. He summarized that the pre-transfer number was a truer picture of the ongoing fiscal situation.

Co-Chair Foster underscored the point made by Mr. Painter related to a pre-transfer and post-transfer deficit. He stated that pre-transfer referred to the budget prior to transferring any money to balance the budget via savings or ARPA funds.

[2:28:36 PM](#)

Representative Rasmussen asked how many years had seen pre-transfer deficits in the past decade.

Mr. Painter responded that there had been pre-transfer deficits from FY 13 through FY 21. He relayed that if there were no supplementals in FY 22, there would be a pre-transfer surplus. The governor's proposed budget had a pre-transfer deficit for FY 22.

Representative Rasmussen stated her understanding that the word "deficit" did not necessarily mean there would be a deficit because the state was required to have a balanced budget. She surmised that saying the pre-transfer deficit meant the state would end up with a deficit was not an accurate statement.

Mr. Painter thought it depended on how the word deficit was being used. He explained that the post-transfer deficit essentially considered whether a deficit remained after money had been moved around and that any remaining deficit may be filled with funds from the CBR. The final number would be after a deficit was filled by "whatever source" and there could not be a deficit. On fiscal summaries, LFD had always shown a pre-transfer deficit and a post-transfer deficit after money had been moved around. He noted it was the method OMB had used until two years back. He explained there could be a pre-transfer deficit that was filled with something, resulting in a balanced budget at the end of the day. He stated it got down to what was meant when the state was said to have a deficit. He stated it was the reason LFD was trying to be very clear. He relayed that when he stated there was a deficit, he meant there was a pre-transfer

deficit. He furthered that the pre-transfer deficit could be filled with savings, but it was a pre-transfer deficit.

Representative Rasmussen stated her understanding that from FY 13 to FY 21 the state had had a pre-transfer deficit every year.

[2:30:50 PM](#)

Mr. Painter addressed highlights in the governor's budget on slide 14:

- Includes supplemental PFD payment for FY22 to reach 50/50 and a 50/50 PFD in FY23.
- Agency Operations increases by \$80.1 million (2.1%) over LFD baseline - in line with inflation assumption of 2.0%.
- Fully funds statewide items.
- Pre-transfer deficit of \$348.4 million in FY23 is filled with \$375.4 million of one-time use of ARPA for revenue replacement.
- No reverse sweep or deficit-filling CBR language.

[2:31:27 PM](#)

Co-Chair Foster asked if the supplemental PFD was about \$1,200 per person and the full 50/50 PFD was \$4,500.

Mr. Painter agreed that the 50/50 for FY 22 would be another \$1,200 [per person] in addition to the amount already paid out. He clarified the amount in FY 23 would be about \$2,500 [per person].

Co-Chair Foster stated his understanding that the 50/50 PFD would be \$2,500 and a statutory would be about \$4,500.

Representative Wool stated that since he had been in the legislature the state had been operating at a deficit (i.e., bringing in less revenue than the state expended). He recognized the state had not had the problem through much of the "oil years." He considered the budget in the 1970s pre-oil and understood there had been income tax and school head tax. He surmised the budget and population had been much lower at the time. He asked if the federal government had helped or if the state had been operating with a balanced budget before oil.

Mr. Painter answered that Representative Wool was basically referring to the one decade prior to the Prudhoe Bay lease sales. He reported that in the 1960s the state did not have significant reserves and had run a balanced budget. Subsequently, the Prudhoe Bay lease sale had resulted in about \$900 million that the state spent over the course of several years. He elaborated that in those years there would be a big transfer in showing a big surplus, followed by some deficit spending as the lease sale money was spent down in advance of the construction of the pipeline. He explained that in the 1970s the state had run some budget deficits as the money was spent down, but the situation had been temporary until the pipeline got online.

[2:33:41 PM](#)

Mr. Painter addressed a short fiscal summary of the governor's budget (UGF only) on slide 15. He corrected his earlier statement about agency operations and stated they were up \$14 million. Statewide items were up \$103 million, and the capital budget was down. He stated that prior to the PFD, the governor's budget was very close to the prior year budget and was about \$29 million higher. He explained that before supplementals, with the larger PFD, the governor's budget was significantly larger. He noted an error on the slide that should read \$955 [million]. Supplementals included in the governor's budget included \$796 million for the PFD and \$135 million for other items. He noted that many of the items in the latter category were capital projects that had shifted because the revenue was available. Additionally, there were more time sensitive items in the fast track supplemental bill. In FY 22, there was a pre-transfer deficit of \$500 million with fund transfers from the SBR and ARPA revenue replacement of about \$650 million, leading to a post-transfer surplus of about \$144 million in FY 22 with the governor's supplementals. In FY 23, there was a \$348 million pre-transfer deficit filled with fund transfers mostly from ARPA revenue replacement, leading to a \$26.7 million post-transfer surplus.

[2:35:28 PM](#)

Mr. Painter turned to slide 16 and shared that he would not go into much detail on agency operations because OMB had previously presented the information. He reported that

Medicaid was up by \$45 million in the governor's budget due to the expiration of the increased Federal Medical Assistance Percentage (FMAP). He explained the amount had been reducing the state's share by increasing the federal share for a few years. There was a significant decrease in the Alaska Marine Highway System (AMHS). The number was down from \$63.4 million UGF the previous year to zero. He expounded that the governor's budget used federal infrastructure funds in place of UGF. With no reverse sweep the governor was requesting \$33.6 million UGF from fund changes to offset lost DGF due to the failure of the reverse sweep. He stated that about two-thirds of the funds were from the higher education fund.

Mr. Painter continued that the governor's budget included \$16.5 million in increases for state troopers, Village Public Safety Officers (VPSO), and other items within the Department of Public Safety. Under the Department of Transportation and Public Facilities (DOT), \$24 million in federal funds had been used to offset general funds the previous year. He explained a portion of the funds were expiring, which resulted in a \$10.9 million UGF increase. There was still \$22.4 million in federal funds within DOT that would expire in the next couple of years; therefore, the increase would likely occur again in the future. There were a number of other increases in other agencies the committee had heard about the previous day from OMB that added up to a total of about \$37 million.

Vice-Chair Ortiz referenced the \$26.7 million projected surplus for FY 23 on slide 15. He believed the governor's capital budget proposed approximately \$300 million in bond sales in order to fund a more robust capital budget. He stated it was at a debt. He asked for verification the number was not included in the deficit or surplus figure.

Mr. Painter agreed. He elaborated that the timing of the bond sales would enter the budget in FY 24. He relayed the proposal of about \$22.8 million in debt payments was accounted for in the governor's 10-year plan. There would not be any payments on the debt in the year of issuance in 2023.

[2:38:32 PM](#)

Mr. Painter looked at statewide items that totaled \$517.6 million in the governor's proposed budget. He detailed that

school debt reimbursement, REAA fund capitalization, and oil and gas tax credits were all funded at statutory levels. Community assistance was funded with \$30 million for the PCE fund per statute. He noted that the statute for the deposit specified the total deposit into the fund could be \$30 million per year or the amount to reach a \$90 million fund balance. He reported that if the higher number was sought, another \$21 million UGF would be needed.

Mr. Painter discussed that state retirement payments were down significantly by \$116 million from the previous year due to two factors. The first was investment performance due to a record breaking year. Second, the Alaska Retirement Management Board (ARMB) decided to adopt a zero additional contribution rate for healthcare. He elaborated that when the unfunded liability had developed, retirement had been split into the pension and healthcare funds. He explained that because AlaskaCare had done a good job controlling costs, the healthcare fund was currently over funded even as the pension side was still underfunded (based on current actuarial projections). The ARMB's decision generated a savings of \$55.1 million in statewide items plus another \$15 million in agency budgets because of SB 55. He highlighted that the policy decision by the board helped the budget quite a bit. He noted the chair of the board had specified it was a one-time item that would be evaluated the following year to see how healthcare costs were going. Based on the situation, the board may continue to not fund healthcare, or they may resume depending on how the fund looked. Therefore, the savings could not necessarily be counted on going forward, but it was a help in the current year.

[2:41:06 PM](#)

Mr. Painter discussed the governor's proposed capital budget of \$154.7 million UGF in FY 23. There was an additional \$93 million of supplemental projects. The supplementals were split between the fast track bill and regular supplementals with less time pressure. The governor also had the general obligation bond mentioned earlier. He remarked that university capital projects were quite a bit larger than \$154.7 million. He pointed out that the governor was not yet trying to incorporate the federal Infrastructure Investment and Jobs Act (IIJA) in his capital budget, which may come in future amendments. The

governor's only use of the infrastructure money was in the operating budget for AMHS.

Mr. Painter turned to slide 19 and shared that a long-term outlook and governor's 10-year plan would be covered more extensively in the following week. The LFD fiscal modeling baseline assumed the governor's FY 23 budget grew with inflation and that the governor would follow the published debt table or other existing structure for future statewide item amounts. He stated that normally LFD would assume the statutory PFD; however, he had omitted the slide due to time reasons. He would present on the topic the following week. With the governor's 50/50 PFD plan, LFD's baseline showed deficits in the range of \$300 million to \$500 million per year over the next decade - enough to drain the CBR (at the \$1.2 billion starting balance) by FY 25. The governor's 10-year plan made several policy changes relative to the baseline that would reduce the deficit and maintain the CBR; it still had small deficits from FY 23 to FY 29, but not enough to empty the CBR. There was a significant difference between LFD's baseline of the current budget growing with inflation and what the governor was envisioning over the next decade.

Representative Edgmon stated that when looking down the road five years, it was not possible to factor in federal money coming into the state and what matching funds may be necessary. Additionally, it was not possible to factor in what the federal funding may do in terms of incurring additional operating expenses. He believed there needed to be some sort of an asterisk there.

Mr. Painter agreed. He stated that hopefully the state's capital projects would also try to reduce operating costs by dealing with energy and efficiency; however, there were some projects that could increase costs. He concluded it could go either way.

[2:44:28 PM](#)

Mr. Painter advanced to slide 20 showing the LFD baseline and long-term outlook and governor's 50/50 plan. The slide showed annual pre-transfer deficits in the neighborhood of \$300 million to \$500 million (the largest was in FY 24 and the smallest was in FY 27). He noted that the budget shrank a bit in FY 26 because the bulk of the oil and gas tax credits would be paid off in FY 25 based on following the

statute. If the statute was followed, the credits would be mostly paid off in the next several years, which would generate a savings and reduce the budget deficit beginning in FY 26. Under the baseline, there would be enough in the CBR and SBR to get through the next couple of years, followed by the need for unplanned ERA draws if no other policy changes were made. He discussed that the previous year, the [legislative] working group had determined there was a \$600 million to \$800 million ongoing gap under the 50/50 plan. He referenced the \$300 million to \$500 million baseline deficit and pointed out the figures used by the working group had come down due to investment performance and higher oil prices.

Representative Rasmussen looked at the information shown on slide 20. She observed that the pre-transfer deficit was mostly filled with federal funds for the FY 23 budget. She thought it meant the deficit should be balanced post-transfer. She considered a scenario where the \$483 million [pre-transfer deficit] was cut out in FY 24 and taken from the [\$1.8 billion] PFD. She estimated it left the PFD cost at about \$1.3 billion. She asked for the approximate dividend size under the scenario.

Mr. Painter replied that he would follow up with the information.

Representative Rasmussen asked if it was roughly \$700 million or so for a \$1,000 dividend, assuming there were about 700,000 Alaskan residents.

Mr. Painter answered that about 640,000 people received the PFD and fixed costs went to PFD criminal and the PFD Division's budget. He reported it was about \$680 million for a \$1,000 PFD.

[2:47:35 PM](#)

Representative Rasmussen considered a scenario where there were 700,000 Alaskans and \$1.4 billion, there could feasibly be a PFD of about \$2,000 and it likely would not lead to a deficit.

Mr. Painter agreed that it was roughly accurate. He would follow up.

Vice-Chair Ortiz asked if the chart reflected a 2 percent inflation rate in the budget.

Mr. Painter replied affirmatively.

Vice-Chair Ortiz asked if education funding that had been one of the major drivers of the overall budget had not increased 2 percent per year over the past five years. He believed the education budget had basically remained flat.

Mr. Painter agreed. He elaborated in FY 19 and FY 20 there had been funding outside of the formula that had not been repeated in current years. The Base Student Allocation (BSA) had been the same for about five years, but there had been years of higher funding due to the outside of the formula money.

[2:49:15 PM](#)

Representative Wool shared there had been an outside consultant group that had presented to the committee on Medicaid expenses and the rate of inflation. He thought the governor's budget included a 1.4 percent inflation rate for Medicaid. He stated that the information presented had been rather scary due to the increase in the cost of medical services. He remarked that Alaska exceeded the national rate of medical charges. He noted Alaska had an aging population needing medical services. He asked if Mr. Painter had any comment on the increase of Medicaid or Medicare.

Mr. Painter answered that the governor's 10-year plan called for 1 percent annual growth in Medicaid spending. He thought the baseline from the consultant report was in the neighborhood of 4 percent. He believed the administration was assuming some cost savings could be achieved in Medicaid. He deferred to the Department of Health and Social Services (DHSS) for detail. He reiterated that the 1 percent assumed there would be significant policy changes in Medicaid. He did not believe the administration would view it as a baseline.

Representative Wool stated that Medicaid expansion had greatly expanded the number of people on Medicaid. He had heard OMB state that the pandemic pushed a lot of people on Medicaid who would hopefully soon get jobs and off Medicaid. He was uncertain it would be a big cost saver. He

remarked that prior to the pandemic, the state's Medicaid population was high in the 35 percent of population range. He knew medical costs in Alaska were high and increasing. He thought 4 percent sounded more accurate. He did not know how much savings "they would get by...or changing the rules that let people on Medicaid."

Mr. Painter replied that he was not a Medicaid expert, but he noted that with the increase in FMAP, the state was not permitted to remove people from Medicaid roles. There were people on the Medicaid roles who may no longer qualify, but part of the agreement with the federal government was the state had to keep providing services to those individuals. He clarified that one of the savings DHSS thought it could achieve the following year to keep to the \$45 million increase, was reducing the Medicaid roles. He stated there may be significant reason to believe Medicaid roles could be reduced; however, it remained an open question.

[2:53:08 PM](#)

Mr. Painter moved to slide 21 and discussed policy changes in the governor's 10-year plan. He highlighted that agency operations were held flat in FY 24 rather than growing with inflation. The items subsequently grew at 1.5 percent for all items except Medicaid, which grew at 1 percent. Beginning in FY 24 school debt reimbursement and the REAA fund were not funded at the statutory level as they were in the governor's budget for the current year. School debt was funded at 50 percent and the REAA fund cap was reduced to a flat amount at just over 50 percent. The governor's budget assumed Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) healthcare contributions were not funded going forward. The LFD baseline included the contributions because it had been discussed as a one-time item. He noted the governor had incorporated a general obligation bond but was holding the capital budget flat at \$154.7 million per year with no inflationary growth. The governor's budget assumed supplementals and lapse would cancel out. He noted that LFD included a \$50 million assumption for supplementals. Lastly, the governor was proposing to fill the budget deficit with \$375.4 million in ARPA revenue replacement in FY 23.

Vice-Chair Ortiz asked what would happen if PERS and TRS healthcare contributions were not funded into the future. He asked if it would result in a cost shift to local

communities. He wondered what savings were accomplished by no longer making state healthcare contributions.

Mr. Painter answered that if the state's actuaries were correct, there would be no impact because the fund had more than enough to pay out future claims for the life of the system. He explained that if healthcare costs were revised upwards or the fund did not earn as much as anticipated, the state could owe more money in the future. He reiterated that based on current actuarial numbers, the healthcare fund was over 100 percent funded, and as long as the numbers held, there would be no impact.

Vice-Chair Ortiz recalled historically there were actuarial numbers that had proved to be "quite faulty" and had resulted in the unfunded liability prior to the \$3 billion transfer [made to pay down the unfunded liability]. He asked if LFD had considered how much the state could rely on actuarial projections into the future. He asked if there were certain safety measures in place that had not existed in the past when the errors had occurred.

Mr. Painter did not know the specifics on the steps ARMB had taken to ensure the experience of the prior actuary was not repeated. He knew the board looked more to external validation that it had in the past in order to ensure the actuarial information could be trusted.

Representative Edgmon remarked that throughout the budget process the legislature spent substantial time on the revenue side, but little time on the expenditure side. He observed that 90 percent of the conversation in the current meeting had been about the revenue side of the equation and not on how the services impacted people. He considered impacts such as protecting people, sending kids to school, impoverished people, disabled individuals, economic impacts on the public sector, and the health and wellbeing of the private sector. He highlighted there was not a 10-year forecast for the aforementioned items. He stated it had always struck him as a "one-sided environment that was decidedly two-sided."

[2:58:11 PM](#)

Mr. Painter looked at slide 22 comparing LFD's 10-year baselines to the governor's 10-year plan. He noted most of the difference in FY 23 was the supplemental assumption.

There was a \$200 million difference in FY 24, much of the difference was due to the year of no budget growth in the governor's 10-year plan and his reduction of some statewide items to 50 percent. The 1 to 1.5 percent growth rate in the governor's budget occurred in future years compared to LFD's 2 percent. He noted that the lower growth rate and flat budgets compounded. The difference between the LFD baselines and the governor's budget increased to \$400 million by FY 31.

Representative Edgmon asked how many other states did a 10-year plan.

Mr. Painter did not know the number, but the number was not high.

Representative Edgmon stated the 10-year plan statutory language had passed in 2008. He remarked that much had been tied to volatility in oil revenue. He requested information on how many other states had a 10-year plan.

Mr. Painter answered that LFD would provide the information.

Mr. Painter addressed the long-term outlook and governor's 10-year plan on slide 23. He explained that applying the governor's 10-year plan to the LFD fiscal model resulted in numbers that were very close to the governor's actual plan (within several million dollars). The numbers were not exactly the same because LFD's model used a couple of slightly different assumptions, mostly on school debt reimbursement. The results showed relatively small deficits beyond FY 26 when the [oil and gas] tax credits were eliminated. The difference was a little more substantial in FY 24 and FY 25 at around \$200 million or so. He remarked that the numbers led to a relatively balanced budget. He noted that LFD considered anything within \$100 million or so to be roughly balanced, given the large margin of error in fiscal planning. He did not have comment on the governor's 10-year plan as a policy document. He pointed out that the math worked. The difference between the LFD baselines and the governor's 10-year plan were policy choices the administration was making.

Representative LeBon asked about assumptions made about the impact of inflation in the 10-year plan.

[3:01:36 PM](#)

Mr. Painter answered the LFD baseline assumed a 2 percent inflation, which was used by the state's investment adviser Callan. He relayed that OMB had stated it did not think budgets grew with inflation but based on the amount of incoming revenue. The OMB numbers were 1 to 1.5 percent and were referred to by OMB as growth rates. He noted there had been higher inflation in calendar year 2021 than in the LFD assumption, but it was not yet really seen in the budget. He detailed there were not many items that would show inflation right away. He explained that it may be seen as the result of collective bargaining in the future. For example, even though there had been 7 percent inflation in the past year it would not be seen as an impact in the FY 23 budget. He noted it may be seen more in the FY 24 budget.

Co-Chair Foster noted that Representative Josephson had joined the meeting.

Representative Wool stated the committee talked a lot about 10-year projections for things like oil price and production. He remarked on the ability to look back to see how accurate 10-year projections had been. He asked if LFD looked at expenditure projections from 10 years back to see about their accuracy for things like education, health and social services, and corrections. He stated that looking forward the legislature talked about inflation which was unknown, aging of the population, and population that had been trending down recently. He asked if the projections had been proven to be fairly accurate.

Mr. Painter responded that LFD was not trying to predict the future. The target was to provide the legislature with a policy neutral baseline showing what the cost would be in ten years if current spending was maintained while factoring in growth with inflation. He clarified that LFD was not trying to predict what the legislature would do; the legislature would make many policy choices in reaction to the needs of the state or available revenue. He believed OMB in its 10-year plan was trying to convey the governor's plan. He believed much of the information would be connected to the accuracy of revenue projections because OMB had to make the plan balance. He furthered that 10-year plans made when there was substantial revenue had a lot more spending than ones made with much less revenue.

[3:04:56 PM](#)

Representative Wool understood the need for a predictable and repeatable policy-neutral formula. He stated that when committee members viewed the future projections, they looked at the data like it would happen. He wondered if the same formulas were applied going back 10 years (i.e., 2 percent growth, a flat budget, and so on) if they would result in an accurate picture of the present.

Mr. Painter answered that the state did not have much certainty about revenue six months into the future let alone 10 years into the future. He stated the value of the 10-year plan was not to predict the future because revenue would change significantly and would drive many decisions. He believed the value of a 10-year plan was to look at what policy choices could be made that would make the future look better or worse than it did at present and in what direction the state was trending. He explained there was no way of projecting details for things like what school debt reimbursement would be in FY 31. He believed it would be foolish to try. He stated it was easy to look at the models and take them too seriously given the underlying volatility included. He noted that in a way it would make sense to round the numbers to the nearest billion to avoid false certainty on the accuracy of the data. He stated there was not good accuracy beyond the next year or so and even then, the amounts could swing by hundreds of millions of dollars.

[3:07:15 PM](#)

Mr. Painter turned to slide 24 and discussed federal COVID-19 and infrastructure funds. In the 2021 legislative session, the legislature appropriated about \$1.5 billion of non-discretionary federal COVID-related funds and \$758.2 million of discretionary COVID funds. The discretionary sources were the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) and several transportation-related fund sources.

Mr. Painter discussed federal COVID-19 and infrastructure funds on slide 24:

- In the 2021 legislative session, the legislature appropriated about \$1.5 billion of non-discretionary

federal COVID-related funds and \$758.2 million of discretionary COVID funds

- o The discretionary sources were the Coronavirus State and Local Federal Relief Fund (CSLFRF) and several transportation-related fund sources
- This left approximately half (\$504.8 million) of the CSLFRF for FY23/24, plus the \$111.8 million Capital Projects Fund, which must be appropriated by September of this year

Mr. Painter elaborated that there were \$111.8 million in Capital Projects Fund monies remaining from ARPA because the state had been awaiting federal guidance. There was also a small amount of Department of Transportation and Public Facilities funds available (in the tens of millions). He stated there was still quite a bit of the COVID funding remaining.

Representative Edgmon referenced the remaining \$111.8 million. He highlighted that when the legislature finished the previous session the use of the funds was broadband, water, and sewer. He asked for verification the use of the funds had been broadened since that time.

Mr. Painter answered there had not been guidance the previous year. There had been a statute that made it clear broadband would qualify, but very unclear what else would qualify. He stated the word from the federal government had been the funding would likely mostly apply to broadband. The guidance included some allowable uses outside of broadband. He skipped to slide 26 and continued to address the question. Eligible uses included broadband and other projects enabling remote work, education, and health monitoring. He elaborated that the guidance provided more detail about what the items may look like including a community center or community school that allowed people to do all of the aforementioned things.

Mr. Painter relayed that the governor had tried to find projects that fit all three categories and had named three projects thus far in the budget, which left approximately \$48 million for something else. He highlighted that none of the projects were broadband. The first project was \$30 million for the Healthcare Record System improvements for DHSS. He relayed that based on the project description, it appeared to qualify as enabling remote work, education, and health monitoring. The second project was \$20 million for

Student Information Technology Systems at the University of Alaska, replacing a 30-year-old system. He stated the project appeared to qualify because it included training for work and health monitoring. The third project was \$13.8 million for the Eagle River Fire Crew facility. He relayed the project did not quite fit within the information the state had received thus far. He elaborated that the administration had described how it was changing the project to fit within the guidelines. He noted that LFD was awaiting more information to see how it may fit within the guidance.

[3:11:12 PM](#)

Representative LeBon referenced the Eagle River Fire Crew facility and asked if it was viewed as a statewide response to forest fires versus a local house on fire.

Mr. Painter replied affirmatively. The project would replace various facilities in the Mat-Su area as a place to keep equipment and gear and hold firefighter trainings. He believed the idea of getting the project to qualify would be adding some type of community center aspect to the facility. The guidance specified that a whole project could qualify as long as part of the facility engaged in the eligible uses specified. He stated it was possible the project would fit the community center idea, but LFD had not yet seen the information.

[3:12:21 PM](#)

Mr. Painter moved to slide 25 and discussed the federal CSLFRF funding. He relayed that while the state was allowed to use the funding through December 31, 2024, the governor was proposing to spend the remaining balance in the FY 22/23 budgets. He reviewed the funding highlights shown on slide 25:

- \$375.4 million for revenue replacement (filling the FY23 deficit)
- \$72.0 million for capital projects, including:
  - \$25.0 million mariculture incentive program
  - \$25.0 million food security agriculture grants
- \$22.8 million for three University of Alaska research projects (drones, heavy oil, and critical minerals)
- \$20.0 million for COVID-19 response in fast-track

- \$10.0 million for workforce training

Mr. Painter elaborated that the CSLFRF funding could be broadly divided into \$375 million for revenue replacement and around \$130 million in additional spending.

Representative Edgmon thought it was an important point and germane to the budget conversation. He remarked on the governor's policy call to spend the funds in one year. He observed that the funding uses all appeared to be very legitimate needs. He remarked on the governor's decision to use the funds as revenue replacement, meaning the funding could be offset with state money elsewhere. He considered the governor's policy decision in comparison with spending the funds over a period of four years. He appreciated the distinction [made on slide 25].

Vice-Chair Ortiz referenced the \$375.4 million in revenue replacement. He noted there had been discussion the previous day about whether the money could be used for a more robust capital budget and increasing deferred maintenance costs. He asked if it was a legal use of the funds.

Mr. Painter answered there were restrictions on the funding uses. He believed some of the deferred maintenance projects may qualify. He clarified it would be much easier to use \$100 million in revenue replacement for something that qualified and spend \$100 million UGF on deferred maintenance. He explained the method would avoid any possibility the federal government would say something did not qualify. He highlighted that part of the flexibility of the funds was that they could be turned into general funds through revenue replacement. He encouraged people to not think too much about what qualified because any of the [CSLFRF] funds could be made general funds to fund a given project. He recommended thinking more about identifying the needs of the state and going from there.

[3:15:42 PM](#)

Representative Edgmon considered all of the federal funding "going out on the street." He noted the state had not yet received much of the infrastructure and broadband funding. He thought about the corresponding workforce and the number of people the state had to do the work and considered a

more measured approach over a period of years. He wanted to keep an eye on the situation.

Mr. Painter concluded on slide 27 with the federal COVID-19 and IIJA funds. He relayed that the state had not yet received formal federal guidance or grant awards. He noted the governor had not built the funding into his budget other than partial funding for AMHS. There were currently many more unknowns than knowns. He reported that the bill increased existing federal grant programs such as the surface transportation program and for village safe water and sewer. Additionally, the bill added funding for new programs. He reported the general timeframe was federal FY 22 through federal FY 26. He noted there was a difference between federal and state fiscal years and the state could roughly spend the funds over the next five years.

Mr. Painter shared that LFD estimated the state may need about \$36 million in additional matching funds to receive the federal funding; however, it was unknown. For example, the state did not know how much it would receive for the village safe water and sewer program; the estimates varied substantially, and the program required matching funds. The governor had announced the administration's plan to use some of the surface transportation funds for the Tustumena replacement. He highlighted that the legislature had appropriated funding for the ferry in FY 18, including the matching amount. He explained that by using the existing match, it would offset match that would be needed for FY 23. He clarified that the actual match needed may be substantially lower. He estimated it could be \$14 million, but if the Department of Environmental Conservation amount was less it could be even lower.

Mr. Painter explained AMHS was the one area the governor used IIJA funds in the budget. The use was to offset \$64 million UGF and program receipts from the Marine Highway Fund in the budget. Additionally, there was an increase in the weeks of service and reduction in gaps at about \$22.6 million. There were also funds available on the capital side for an electric ferry and other things that were not yet incorporated in the capital budget. He added that LFD was awaiting federal guidance for many of the things.

Representative Josephson stated there had been a hope and belief it would be an enormous capital year for the legislature. He referenced at the governor's \$150 million

capital budget and general obligation bond package. He was hearing from Mr. Painter that it was more of an "FY 24 thing." He asked if the governor could drop hundreds of millions in qualifying RPLs [revised program legislative] after the legislature adjourned the current session, essentially making the legislature powerless in the situation.

Mr. Painter answered that the legislature may receive some of the guidance in the next couple of months before the legislature adjourned. He noted the capital budget did not really get started until March or April and there may be more certainty by then. He confirmed the governor could use the RPL process for many of the items. He noted that in the FY 22 budget, the legislature had included language restricting the use of the RPL process. He explained that the legislature had specifically exempted the use of the federal funds from the RPL process the previous year.

Representative Josephson asked for verification that including the language in the budget acted as a statute to trump the codified RPL language.

Mr. Painter answered that the RPL language in the budget was an appropriation for amounts conditional on cooperation with the Legislative Budget and Audit Committee process. He explained that the legislature could create exemptions to the appropriation language "and then we're not appropriating it." For example, the legislature could specify "you can do it in line with the RPL statute, except in this case you can't do an RPL at all because we're not making that appropriation here in this section." He furthered that the previous year the legislature had taken a "belt and suspenders" approach where language had also limited the RPL process in the disaster bill HB 76.

[3:22:01 PM](#)

Representative Josephson considered the COVID money and the hundreds of millions of dollars in RPLs that had been a health and safety matter. He did not want to "slow roll" the capital budget, but he noted it was less of a health and safety matter.

Representative Edgmon referenced the governor's capital budget that included a general obligation bond amount between \$302 million and \$329 million. He noted he had seen

a couple of different figures. He asked how to juxtapose it relative to the substantial federal funding of \$3.5 billion over a period of several years. He noted a large chunk of the funding was coming to Alaska in the current year. He asked how to understand whether there was federal funding available that the state may pass in the general obligation bond, which would result in the state paying debt on a project. He asked how the legislature would know the state matching portion of some of the RPLs. He thought the answer was that the money the governor would purport to RPL would not have any attached matching funds.

Mr. Painter replied that RPLs were for items that did not typically have a matching requirement because without the match it would mean the money could not be spent; therefore, it would not be an RPL the committee would necessarily want to approve. Occasionally there had been special circumstances where the legislature appropriated matching funds later on. He relayed that one of the questions LFD always asked about RPLs with federal money was whether there was a matching requirement, and if so, how it would be met. Sometimes agencies communicated there was a matching requirement they could meet with existing authority. He noted that it would likely not be the case in a situation involving hundreds of millions of dollars.

[3:24:50 PM](#)

Representative Edgmon surmised that the legislature did not know whether the Tustumena, an ocean going ferry, would be built in Alaska or another state.

Mr. Painter answered that he did not know.

Vice-Chair Ortiz referenced Mr. Painter's earlier statement that the legislature had appropriated state matching funds for the Tustumena in 2018. He understood there was federal money in place for the purpose as well. He asked if the money was still available.

Mr. Painter replied that the capital lapse provision required the work to be started within five years. He stated it had not yet been five years; therefore, substantial work could be started using the existing appropriation. He clarified it had been an appropriation of state match from the vessel replacement fund and the federal authority as well. He further explained the project

had been waiting for federal revenue because the additional project that cost more federal money had been added and it had been more federal money than the state received that year.

Mr. Painter thanked the committee and relayed he would present on the 10-year plan again the following week.

Co-Chair Foster reviewed the schedule for the following meeting.

#

ADJOURNMENT

[3:27:23 PM](#)

The meeting was adjourned at 3:27 p.m.