

ALASKA STATE LEGISLATURE
HOUSE JUDICIARY STANDING COMMITTEE

Anchorage, Alaska

June 2, 2021

1:01 p.m.

MEMBERS PRESENT

Representative Matt Claman, Chair
Representative Liz Snyder, Vice Chair
Representative Harriet Drummond (via teleconference)
Representative David Eastman (via teleconference)
Representative Christopher Kurka (via teleconference)
Representative Sarah Vance (via teleconference)

MEMBERS ABSENT

Representative Jonathan Kreiss-Tomkins

COMMITTEE CALENDAR

HOUSE JOINT RESOLUTION NO. 7

Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund, appropriations from the permanent fund, and the permanent fund dividend.

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HJR 7

SHORT TITLE: CONST. AM: PERM FUND & PFDS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

02/18/21	(H)	READ THE FIRST TIME - REFERRALS
02/18/21	(H)	STA, JUD, FIN
04/20/21	(H)	STA AT 3:00 PM GRUENBERG 120
04/20/21	(H)	Heard & Held
04/20/21	(H)	MINUTE(STA)
05/04/21	(H)	STA AT 3:00 PM GRUENBERG 120
05/04/21	(H)	Heard & Held
05/04/21	(H)	MINUTE(STA)
05/06/21	(H)	STA AT 3:00 PM GRUENBERG 120
05/06/21	(H)	Moved CSHJR 7(STA) Out of Committee
05/06/21	(H)	MINUTE(STA)
05/10/21	(H)	STA RPT CS(STA) 4DNP 2NR 1AM
05/10/21	(H)	DNP: CLAMAN, EASTMAN, VANCE, TARR

05/10/21 (H) NR: STORY, KREISS-TOMKINS
05/10/21 (H) AM: KAUFMAN
05/14/21 (H) FIRST SPECIAL SESSION BILL
05/14/21 (S) FIRST SPECIAL SESSION BILL
05/24/21 (H) JUD AT 1:00 PM GRUENBERG 120
05/24/21 (H) Heard & Held
05/24/21 (H) MINUTE (JUD)
05/26/21 (H) JUD AT 1:00 PM GRUENBERG 120
05/26/21 (H) Heard & Held
05/26/21 (H) MINUTE (JUD)
06/02/21 (H) JUD AT 1:00 PM ANCH LIO DENALI Rm

WITNESS REGISTER

LUCIA MAHONEY, Commissioner
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Answered questions pertaining to CSHJR 7 (STA).

MIKE BARNHILL, Deputy Commissioner
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Answered questions pertaining to CSHJR 7 (STA).

ALEXEI PAINTER, Legislative Fiscal Analyst
Legislative Finance Division
Juneau, Alaska

POSITION STATEMENT: Offered a PowerPoint presentation, titled "Analysis of Governor's Fiscal Plan."

ACTION NARRATIVE

[1:01:43 PM](#)

CHAIR MATT CLAMAN called the House Judiciary Standing Committee meeting to order at 1:01 p.m. Representatives Claman, Snyder, Eastman (via teleconference), Kurka (via teleconference), and Drummond (via teleconference) were present at the call to order. Representatives Vance (via teleconference) arrived as the meeting was in progress.

HJR 7-CONST. AM: PERM FUND & PFDS

[Contains discussion of SJR 6.]

[1:03:04 PM](#)

CHAIR CLAMAN announced that the only order of business would be HOUSE JOINT RESOLUTION NO. 7, Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund, appropriations from the permanent fund, and the permanent fund dividend. [Before the committee was CSHJR 7(STA).]

CHAIR CLAMAN informed the committee that he spoke with Commissioner Mahony about "the Harvard model." He noted that the Department of Revenue (DOR) provided an article published by The Harvard Crimson, titled "Harvard Will Draw Further from the Endowment FY2022 Than Planned, Citing Strong Market Returns" [copy included in the committee packet]. Additionally, DOR provided information regarding the Harvard University endowment that reported the actual amount that Harvard relies on for its endowment - 37 percent - which differs from testimony from a previous hearing.

[1:05:06 PM](#)

REPRESENTATIVE SNYDER referred to a presentation from a previous meeting. She pointed out that according to the governor's plan, revenue generation would begin in 2024 using bridge funding from the earnings reserve account (ERA). She questioned why the operations are presented in that order and suggested that rather than overdraw significantly from the ERA, it would be fiscally advantageous to "bite the bullet" and address the need for revenue generation sooner rather than "kick that ... can down the road" for three to four years.

[1:06:45 PM](#)

[Due to technical difficulties, invited testifiers participating via Microsoft Teams were inaudible.]

[1:09:28 PM](#)

The committee took a brief at-ease.

[1:10:11 PM](#)

[Due to technical difficulties, invited testifiers participating via Microsoft Teams were inaudible.]

[1:11:53 PM](#)

The committee took an at-ease from 1:11 p.m. to 1:18 p.m.

[1:18:55 PM](#)

CHAIR CLAMAN reminded the committee that the question was directed to Commissioner Mahoney.

[1:19:39 PM](#)

REPRESENTATIVE SNYDER restated her question, noting that after having a chance to think on the information from the first hearing, she noticed that the governor's plan would need large cuts and additional revenue; however, new revenue wouldn't be added until three years later. She asked why that is a more fiscally responsible position than "biting the bullet" and initiating revenue generation as soon as possible, which would reduce the need for a large draw on the ERA.

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LUCIA MAHONEY, Commissioner, Department of Revenue, responded that the department recognizes that it will take time for the legislature and the administration to agree upon new revenue. She added that it could take another year to implement that revenue source. She conveyed that the purpose is to reflect on the timeframe that is required.

REPRESENTATIVE SNYDER thanked Commissioner Mahoney for recognizing the possibility [of moving forward with new revenue solutions]. She asked if DOR had recommendations on new revenue options and asked about existing revenue ideas.

COMMISSIONER MAHONEY responded that the department is exploring some new tax-type revenue measures; however, she said she could not go into details at this time because they have not been reviewed by the Department of Law (DOL).

REPRESENTATIVE SNYDER noted that in previous presentations on this topic, the additional \$150 million in 2024 and the \$300 million in 2025 and subsequent years were presented as possibly being achieved through cuts. She asked if Ms. Mahoney had recommendations on where the cuts might be made.

COMMISSIONER MAHONEY explained that it is the governor's position that the administration would constantly be looking for opportunities to reduce spending and identify opportunities for

improvement. She referenced her previous presentation and noted that there could be potential reduction in the state's contribution to retirement accounts. Additionally, she mentioned that DOR had reviewed the DLWD population estimates and found the state population is declining. She added that because some of the formulas incorporate population as a variable, those programs could also see reduction.

[1:26:08 PM](#)

CHAIR CLAMAN inquired about the possibility of a measure to make revenue from state gaming. He questioned whether there was a proposal for a gaming change to statute that would allow gambling beyond pull-tabs and how much that could generate.

[1:27:18 PM](#)

COMMISSIONER MAHONEY relayed that the department is working with a consultant who is collaborating with stakeholders to gather information about potential gaming in Alaska communities. Regarding the revenue estimate, she said that the administration is awaiting information from the consultant.

CHAIR CLAMAN asked if there is presently a revenue measure before the legislature that was proposed by the governor.

COMMISSIONER MAHONEY said she is not aware of any.

CHAIR CLAMAN asked if the legislature could anticipate seeing one or more revenue measures introduced by the governor in advance of the second special session.

COMMISSIONER MAHONEY reported that revenue measures would be included in the agenda items for the special session in August. She stated she would need to consult with the governor to confirm the direction.

CHAIR CLAMAN said he is aware of the measures currently placed on the call [to a special session]. He shared his understanding that Commissioner Mahoney could not say whether there would be any proposals from the governor by the August special session.

COMMISSIONER MAHONEY answered that she is hopeful [those measures] would be discussed, adding that that decision would be part of the overall plan for the [special] session.

[1:29:39 PM](#)

REPRESENTATIVE KURKA stated his understanding that one of the items is a proposal for a constitutional amendment that would require any new tax to be approved by the voters, which is similar to the proposal that would require voter approval to change the PFD formula. He suggested combining these discussions and proposals into the same amendment.

[1:31:10 PM](#)

COMMISSIONER MAHONEY pointed out that there are several constitutional amendments that are on the call, including a constitutional amendment that would establish an appropriation limit, a constitutional amendment that would prohibit new state taxes without a vote of the people, and a constitutional amendment pertaining to the permanent fund. She said the intent is to include all these amendments in a comprehensive plan and to discuss them together.

REPRESENTATIVE KURKA suggested including a discussion on the proposal to require voter approval to change the permanent fund dividend (PFD).

COMMISSIONER MAHONEY responded that the amendment changes regarding the PFD formula that the governor recently proposed would be considered as part of the call.

REPRESENTATIVE KURKA sought to clarify that if the legislature does not address these items during the current special session, then they would be discussed in the second special session.

COMMISSIONER MAHONEY answered yes.

[1:33:08 PM](#)

REPRESENTATIVE EASTMAN asked whether all portions of the governor's plan could be brought together into a single amendment resolution.

COMMISSIONER MAHONEY deferred the question to Mr. Barnhill.

[1:33:57 PM](#)

MIKE BARNHILL, Deputy Commissioner, Department of Revenue, noted that the CSSJR 6(JUD) represents all portions of the plan coming together. He said that proposal would constitutionalize the percent of market value (POMV) formula at no more than 5 percent

of the five-year lagging market average. Additionally, it would constitutionalize the allocation between the PFD and government spending, a dedication to Power Cost Equalization (PCE), and place the balance of the PCE fund into the permanent fund. He clarified that those elements could be considered if the committee were to prepare a new committee substitute (CS) for CSHJR 7(STA) [similar to CSSJR 6(JUD)].

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REPRESENTATIVE EASTMAN referred to a question that had been addressed in a previous hearing. He stated his concern that even if the constitutional language were to go forward and be put into law, at some point, the future Alaska State Legislature could potentially say, "Yeah, we just don't want to do that," and not enforce the language. He said that future legislatures could determine that PCE is not a priority. He asked what the governor's position is on that today.

COMMISSIONER MAHONEY deferred the question to Mr. Barnhill.

[1:37:40 PM](#)

MR. BARNHILL referred to CSSJR 6(JUD) and directed attention to language on page 2, [lines 7-11], which read as follows:

(d) Each year, the legislature shall appropriate a portion of the amount appropriated under (b) of this section for power cost equalization. The amount appropriated shall be the amount necessary to equalize the cost of power in the State, according to State law, but may not exceed fifty percent of the amount appropriated under (b) of this section.

MR. BARNHILL noted that the proposal for the phrase "shall appropriate" to be inserted into the constitution should address Representative Eastman's question. He shared his understanding that future legislatures shouldn't be able to circumvent that language if it were inserted into the constitution. He noted that the word "shall" was used twice and probably reflects an intention to limit, if not make impossible, the ability of the legislature to circumvent making an appropriation for PCE.

[1:39:15 PM](#)

CHAIR CLAMAN shared his understanding that Mr. Barnhill had said that CSSJR 6(JUD) has all the components of the fiscal plan

going forward, but Chair Claman noted that it doesn't have any revenue component. He said that his understanding is that there are four parts to the plan, one of which being revenue, and asked Mr. Barnhill whether it isn't fair to say that CSSJR 6(JUD) doesn't have any revenue components.

MR. BARNHILL answered that is correct. He clarified that CSSJR 6(JUD) contains all the constitutional components of the governor's plan. He said there remains a role for the legislature in that revenues don't materialize in the amount forecasted in the scenario placed before the committee in ten, twenty, or even five years. The legislature will always retain its ability to enact statutes to raise revenue, he explained. Similarly, with respect to PCE, he said that the legislature has the role through statute of deciding how to equalize the cost of power throughout the state. He concluded that those are two elements of the government's plan that are not in a constitutional resolution because discretion is preserved for the legislature to legislate on those matters.

CHAIR CLAMAN surmised that the legislature would have to make a revenue proposal that the governor has been unwilling to make.

[1:41:02 PM](#)

REPRESENTATIVE EASTMAN asked Mr. Barnhill, based on the drafter's intent of the word "shall" in the bill, what the remedy is if the legislature decided not to follow that language and appropriate a minimal amount.

MR. BARNHILL said this conversation is starting to get into DOL's territory. He shared his understanding that whenever there's a possible constitutional violation, the people of Alaska can bring litigation to enforce the constitution, adding that the people do so with some frequency.

[1:42:37 PM](#)

CHAIR CLAMAN announced that the committee would now hear a presentation on the governor's financial plan.

[1:43:37 PM](#)

ALEXEI PAINTER, Legislative Fiscal Analyst, Legislative Finance Division, offered a PowerPoint presentation, titled "Analysis of Governor's Fiscal Plan." He began on slide 2,

"Overview of LFD Fiscal Modeling," which read as follows [original punctuation provided]:

- Legislative Finance's fiscal model is designed to show policy makers the longer-term impact of fiscal policy decisions
- The baseline assumptions are that current budget levels are maintained, adjusted for inflation. This allows legislators to see the impact of their policy choices
- All long-term models are extremely sensitive to assumptions and inputs

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MR. PAINTER proceeded to slide 3, "Overview of LFD Fiscal Model (cont.)," which read as follows [original punctuation provided]:

Revenue Assumptions

- LFD's baseline revenue assumptions are the Department of Revenue's Spring Revenue Forecast - This assumes \$61 oil in FY22, growing with inflation in future years - DNR oil production forecast projects that Alaska North Slope production will increase from 459.7 thousand barrels per day in FY22 to 565.5 thousand barrels per day in FY30
- For the Permanent Fund, we assume actual FY21 returns through the April 30 APFC statement and Callan's 6.20% assumption for FY22 and beyond

MR. PAINTER moved to slide 4, "Overview of LFD Fiscal Model (cont.)," which read as follows [original punctuation provided]:

Spending Assumptions

- For agency operations, we are currently using the Senate's first committee substitute as our baseline (\$3,872.7 million UGF), growing with inflation of 2.0% - This budget is used because it did not include any one-time fund sources present in other versions of the budget, so it represents a reasonable starting point.
- For statewide items, our baseline is to assume that all items are funded to their statutory levels - This includes School Debt Reimbursement, the REAA Fund, Community Assistance, and the PFD - We also include a baseline Fund Transfers amount that represents the ongoing cost of DEC's Spill Prevention and Response program

- For the capital budget, we assume the Senate's first committee substitute (\$176.7 million UGF) growing with inflation of 2.0% - This budget is used because it represents the Governor's original amended request without one-time fund sources
- For supplementals we assume \$50.0 million per year. This is based on the average amount of supplemental appropriations minus lapsing funds each year

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MR. PAINTER proceeded to slide 5, "LFD Baseline Spending Assumptions," which depicted a table of the baseline spending assumptions. He noted that the funding spikes and falls because of oil tax credits based on the spring forecast.

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CHAIR CLAMAN asked for clarification that the oil tax credits will show on the "Statewide (full funding)" line of the table as opposed to the "Agency Ops (SCS1)" line of the table.

MR. PAINTER answered yes.

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MR. PAINTER continued explaining slide 5. He said that total budget is \$4.7 billion in F Y22, and overall, it grows a little slower than inflation because of the tax credits falling off. He explained that this table is the starting point.

MR. PAINTER proceeded to slide 6, "Comparison of Governor's 10-Year Plan to LFD Baselines," which depicted a table that compares the division's baseline to the governor's 10-year plan. He explained that for fiscal year 2022 (FY 22), the two plans are close but there are some differences, such as the Agency Operations.

MR. PAINTER advanced to slide 7, "Comparison of LFD Baseline to Governor's 10-Year Plan (cont.)," which read as follows [original punctuation provided]:

- Governor's plan calls for permanently funding School Debt Reimbursement and REAA Fund capitalization at 50% of statutory levels
- Calls for \$65.7 million less UGF agency operations spending in FY22 than original Senate budget, plus

\$100 million of additional reductions in each of FY23 and FY24

- Uses 1.5% growth in agency operations versus 2.0% inflation beyond FY24
- No assumed supplementals or fund transfers
- This level of budget reductions is not unattainable, but would require significant policy choices to realize

[1:57:10 PM](#)

REPRESENTATIVE SNYDER asked for confirmation that on slide 6, which refers to the differences between the two plans, these differences are not assuming any revenue generation, but instead relying on reductions.

MR. PAINTER responded that slide 6 is just depicting the budget aspect, not revenue.

REPRESENTATIVE SNYDER asked Mr. Painter to speak on the difference between 1.5 percent and 2 percent inflation beyond FY 24. She asked what is driving the difference, what is more realistic, and what factors play into seeing one and not the other.

MR. PAINTER responded that the governor's 10-year plan is to hold the growth of agency operations below the level of inflation. This has been achieved over the past 5 or 6 years and the FY 22 budget in both bodies' versions as well as the governor's version are comparable to, for example, the FY 18 budget in nominal terms. The assumption, he said, is that the budget would be reduced, and growth would be held below inflation, which would require either holding large items such as Medicaid below inflation, holding the education budget below inflation, or holding the agency operations below inflation.

REPRESENTATIVE SNYDER shared her understanding that the committee had been reassured that [the budget] would be increased according to inflation at least to achieve that "flatness." She asked Mr. Painter to confirm whether that understanding is correct.

MR. PAINTER answered yes, adding that the governor's plan is to hold spending growth slightly below inflation.

[2:01:08 PM](#)

REPRESENTATIVE EASTMAN recalled that the House and Senate versions of the budget differ significantly regarding the reverse sweep. He asked Mr. Painter that if the senate version of the budget omitted that language [regarding the reverse sweep], could it then contain appropriations from funds that may not necessarily be capitalized upon if the reverse sweep isn't included in the final version of the budget.

MR. PAINTER responded that the reverse sweep was included in the House version of the budget but the vote on it failed. The Senate's version did not include that language and therefore there was no vote taken. He explained that that language can be added in conference committee, but if it is not added and not voted on, it's possible that some of those appropriations that are in both versions of the budget from "sweepable" accounts could not take effect.

REPRESENTATIVE EASTMAN said he wanted to confirm that the passage of the reverse sweep is a foundation of this conversation.

[2:03:04 PM](#)

CHAIR CLAMAN asked Mr. Painter about the 2 percent and 1.5 percent inflation rate. He questioned how Legislative Finance Division (LFD) came up with the 2 percent figure.

MR. PAINTER stated that the 2 percent is the officially adopted inflation rate from Callan and Associates, which is the investment consultant the state uses for the PFD. He said that that number has been 2.25 percent for several years; however, it's being reduced. He shared that that number is in line with the federal targets and the division feels that that is a reasonable assumption to use.

CHAIR CLAMAN asked Mr. Painter if inflation rates did pick up, whether that would cause a similar change in the overall number.

MR. PAINTER answered yes, in the division's modeling that uses inflation as a basic growth rate, if there was a higher inflation assumption, it would increase the baseline for future years.

CHAIR CLAMAN referenced slide 6 of Mr. Painter's presentation. He noted that the agency operations figure on the top line of the table changes from \$65.7 million in FY 22 to \$182 million in FY 23. He shared his understanding that it reflects "the

governor's goal of reducing by another approximately \$150 million for the FY 23 budget."

MR. PAINTER said it's about \$100 million reduction. The reason it differs is because the baseline is increasing with inflation, so not only is the governor decreasing the budget, but it's also not growing from inflation.

CHAIR CLAMAN asked Mr. Painter, moving from FY 23 to FY 24, whether that reflects another \$150 million reduction.

MR. PAINTER conveyed that it is truly \$100 million but also not doing the inflationary growth. He said that it is a semantic question: "Are you reducing it by \$100 million below last year's level or are you reducing it by \$150 million below last year's level adjusted for inflation?" He shared that either one would be an accurate description of the governor's plan.

CHAIR CLAMAN asked for clarification on whether the \$150 million reduction can be thought of as a reduction from the prior year adjusted upward for inflation, or \$100 million reduction also adjusted for inflation.

MR. PAINTER said that is how the comparisons appear.

CHAIR CLAMAN asked whether the \$150 million is all in agency operations or if it is the statewide capital or any of the other differences.

MR. PAINTER said he understands that to be true but declined to speak for the administration on that matter.

CHAIR CLAMAN asked whether it's true based on the analysis with which the Legislative Finance Division is working.

MR. PAINTER answered yes.

CHAIR CLAMAN asked whether that means, for FY 23 and FY 24, if the state was unable to achieve those reductions in each of those years and also add in the revenue proposals that are in some of the governor's plans, the state would be at a \$500 million to \$600 million revenue need to keep the budget balanced, not a \$300 million revenue need.

MR. PAINTER stated that is correct. If the budget is not reduced as the governor is proposing and the PFD is constitutionalized so that it is no longer "a lever" that can be

used to balance the budget, it would come down to revenue increases of that size in order to balance the budget.

[2:08:03 PM](#)

MR. PAINTER continued on slide 8, "Analysis of Governor's Comprehensive Fiscal Plan," which read as follows [original punctuation provided]:

- Governor uses OMB 10-year plan for spending, which has nearly \$5 billion less spending over FY22-30 than current policies reflected in LFD baseline
- Adds \$300 million in new revenue (or additional budget reductions) beginning midway through FY24
- Constitutionalizes PFD at 50% of POMV draw

MR. PAINTER advanced to slide 9, "Fiscal Model: Governor's PF Plan with LFD's Baseline Spending Assumptions," and explained that this shows some results of the fiscal modeling that has been done. He explained that the graphs on the slide depict a situation with only the revenue portion of the governor's plan and not the spending side. He explained that without spending reductions, there would still be a significant deficit. The graph on the right relates to budget reserve balances, and the graph on the left compares the unrestricted general fund (UGF) to the budget, he said. In this scenario, if there are not budget reductions, it would result in an "unfilled budget hole" in FY 25 and beyond.

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CHAIR CLAMAN asked Mr. Painter for clarification on whether the dotted line that reflects the budget that includes the dividend is assuming the 50/50 split dividend that's estimated to be \$2,300.

MR. PAINTER responded yes, that represents the \$300 million revenue, but not the spending.

[2:11:12 PM](#)

MR. PAINTER continued on slide 10, "Fiscal Model: Governor's PF Plan with Governor's Spending Plan," which depicted numbers that are very similar to those from the administration. He explained that the graphs on this slide show a scenario where the governor's spending reduction is implemented, in addition to spending reductions. The surplus deficit numbers start out with

deficit of \$1.4 billion but shrink rapidly towards achieving a balanced budget in FY 27. He explained that the CBR balance seen on the graph on the right starts growing as the surplus goes into the CBR in those years. He noted that the division's modeling matches the administration's numbers when the aforementioned assumptions are also considered.

MR. PAINTER continued to slide 11, "Fiscal Model: Governor's PF Plan with Governor's Spending Plan," and explained that the governor's plan works fiscally if the budget reductions in revenue are agreed upon based on the current revenue forecast. The division's modeling on slide 10 shows that if those things occur, the 50/50 dividend and constitutionalizing the PCE plan balance the budget. He added that if oil revenue is lower than the spring forecast, there would need to be more budget reductions or more new revenue to balance the budget as compared to what is seen in the governor's plan. He continued that the state is unable to achieve the spending reductions that the governor is proposing, more revenue would need to be included in order to make up for it. He explained that the legislature has four main levers to balance the budget: draw from savings accounts, reduce the PFD, reduce the budget, or increase revenue. The governor's plan removes the first two options. If there is reduced plan below the forecast, he said, then the latter two options would be the only ones available. Without ERA access or significant savings balances, the legislature would be forced to act swiftly to resolve any fiscal imbalances in the future.

MR. PAINTER made a correction that slide 9 does not include the \$300 million in new revenue; it simply represents the 50/50 plan with no other policy intervention.

[2:15:53 PM](#)

REPRESENTATIVE SNYDER pointed out that in a previous presentation by the commissioner, the projected surplus was \$393 million by FY 30; she asked if that surplus corresponds with the projections provided by the division's models. Additionally, she offered her understanding that the calculation of \$393 million was based off the assumption that some existing debt would be paid off, including school bond debt and oil tax credits. She predicted that there may be future debt that would eat into that surplus. She asked if it's reasonable to expect a surplus based on historical accumulation of debt.

MR. PAINTER said with the governor's spending assumptions, the division's modeling shows a surplus of \$395 million in FY 30, which is almost exactly the same. Regarding debt, he clarified that new credit cannot be earned for oil tax credits, so it's just a matter of when that's paid off. He explained that in the baseline assumption, which assumes that the statute is followed and \$114 million is paid this year followed by \$117 million next year and so forth, [the oil tax credit] would be paid off in FY 27. Regarding school debt reimbursement, he noted that the moratorium on new debt was extended through FY 25. He acknowledged that the division's modeling is low for school bond debt reimbursement due to the assumption that no new debt comes in after the moratorium is lifted. He speculated that if the moratorium is allowed to lift in FY 25, there would be new debt added on in future years. Nonetheless, he pointed out that in the governor's plan, the legislature would only fund half of that, so the amount would be relatively small. Another factor that has been discussed by the administration, he said, is using bonding to make up for restrained capital budgets, which would also reduce the surplus.

[2:20:24 PM](#)

CHAIR CLAMAN returned to slide 9 and remarked:

So, the difference between the governor's budget line and the revenue projections, if we had \$300 million in new revenue starting in FY 25, would that be a balanced budget on this slide?

MR. PAINTER responded no, there would still be a deficit.

CHAIR CLAMAN questioned whether the current amount that [the legislature] owes to the CBR is \$11-12 billion.

MR. PAINTER said after the books are closed on FY 21, the current estimate is \$11 billion or \$12 billion assuming that the sweep is reversed.

CHAIR CLAMAN in reference to Representative Snyder's earlier question to DOR about the \$3 million bridge draw, inquired about the pros and cons to passing revenue first from a fiscal policy perspective.

MR. PAINTER relayed from a purely fiscal, nonpolitical perspective, the sooner any intervention is done the better, because more would be left in savings. He opined that waiting

would be a political call not a fiscal call. Nonetheless, he said [the legislature] would not want to balance the FY 22 budget given the delay in revenue coming on. He added that if something were passed now, it could "come online" by midway through FY 23, versus postponing for another year or two and waiting even longer for the revenue.

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MR. PAINTER noted that the joint document, titled "OMB and LFD Fiscal Model Assumptions" [included in the committee packet], is a "handy" reference to see the differences that the governor is proposing in terms of spending. He added that the document lays out all the assumptions, which clearly illustrates those differences against the baseline.

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CHAIR CLAMAN directed attention to the last row on that document and asked Mr. Painter to highlight the key differences between Legislative Finance Division assumptions and DOR assumptions pertaining to the dividend.

MR. PAINTER responded that he is not aware of any significant differences. He noted that on the number of eligible applicants, the division has been assuming that the same number of applicants received the dividend in FY 22 as in FY 21. Additionally, the division is assuming that the Department of Labor & Workforce Development's (DLWD's) population growth forecast holds true in subsequent years. He said he's not sure if DOR is using DOL's forecast, as it is slightly dated.

CHAIR CLAMAN pointed out that there is an actuarial evaluation on retirement as of September 2020 on OMB and December 2020 on LFD. He asked if there is a significant difference in those.

MR. PAINTER confirmed that there is [a significant difference.] He explained that in FY 20, there were actuarial losses because the earnings were about 2 percent versus the actuarially assumed 7.3 percent; therefore, using the draft numbers that would likely be adopted in two weeks of the ARM Board meeting, the numbers end up being the same in FY 22, very close in FY 23, and further apart in FY 24-30 - about \$40 million in FY 24 to \$66.8 million higher in FY 30.

CHAIR CLAMAN asked which number is higher.

MR. PAINTER reported that the division's number is higher because the division is incorporating the FY 20 actuarial loss.

CHAIR CLAMAN sought verification that the division's [model] shows a better picture of retirement than OMB.

MR. PAINTER clarified that the division is using draft numbers and OMB is using official numbers, which means that currently, the division has a less optimistic picture that shows more spending. If the same pattern held true with the FY 21 actuarial results, which are going to be positive, OMB would have a more pessimistic assumption and in December, the Division of Legislative Finance would switch to a more optimistic assumption. He emphasized that the division's ability to use unofficial numbers indicates that its numbers are currently higher; however, he offered his belief that next year that would be in the opposite.

[2:28:49 PM](#)

CHAIR CLAMAN invited comments or observations from DOR.

[2:29:10 PM](#)

COMMISSIONER MAHONEY acknowledged that the majority of differences between the two models relate to the spending plan. She relayed that the governor is focused on continuing to reduce spending. Additionally, she pointed out that in regard to calculating the POMV revenue, both the Division of Legislative Finance and DOR used approximately \$77.6 billion. She noted that yesterday that number was \$80.6 billion, which indicates that it is already up \$3 billion from the end of April, which suggests that when these numbers are recalculated, the POMV would continue to increase. Furthermore, she recognized that there are differences in some non-policy-related assumptions. Her plan, she said, is to work with both OMB and LFD to come to a consensus on some [smaller item] assumptions, such as inflation, to "take the noise" out of this analysis, so that in the future, conversations could be focused more on the policy aspect of the governor's plans.

[2:31:29 PM](#)

CHAIR CLAMAN returned to the statement that 70 percent of Harvard University is funded through its endowment. He asked if Commissioner Mahoney had performed additional research on that figure.

COMMISSIONER MAHONEY acknowledged that she had speculated that the Harvard endowment funded 70 percent of Harvard University's operating budget; however, this past year, it was 37 percent. She directed attention to a document, titled "Harvard Will Draw Further from Endowment in FY2022 Than Planned, Citing Strong Market Returns" [hard copy included in the committee packet], which addresses the reasons why Harvard decided to make the overdraw. She expounded that the article recognizes that Harvard, like many colleges, experienced deficits during the pandemic, but the objective of increasing their draw to 2.5 percent more was about strong market returns. She said the CFO and VP of Finance were quoted saying that the draw "is consistent with their intent on distributing as much as they responsibly can of the endowment to support all of the endowed research and teaching activities vital to their mission." In closing, she maintained that the unstructured draw from the permanent fund, which the governor is proposing, does not compromise the principal or the inflation proofing of the fund.

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CHAIR CLAMAN announced that CSHJR 7(STA) was held over.

[2:35:41 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Judiciary Standing Committee meeting was adjourned at 2:35 p.m.