

**ALASKA STATE LEGISLATURE  
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

April 6, 2021

11:36 a.m.

**MEMBERS PRESENT**

Representative Ivy Spohnholz, Chair  
Representative Adam Wool, Vice Chair  
Representative Andy Josephson  
Representative Calvin Schrage  
Representative Andi Story  
Representative David Eastman

**MEMBERS ABSENT**

Representative Mike Prax

**COMMITTEE CALENDAR**

PRESENTATION: ALASKA'S FISCAL POSITION AND PROJECTIONS

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

ALEXEI PAINTER, Director  
Legislative Finance Division  
Legislative Affairs Agency  
Juneau, Alaska

**POSITION STATEMENT:** Provided a PowerPoint presentation, titled "Alaska's Fiscal Position & Projections," dated 4/6/21.

**ACTION NARRATIVE**

[11:36:33 AM](#)

**CHAIR IVY SPOHNHOLZ** called the House Special Committee on Ways and Means meeting to order at 11:36 a.m. Representatives Schrage, Story, and Spohnholz were present at the call to order. Representatives Eastman, Josephson, and Wool arrived as the meeting was in progress.

**PRESENTATION: Alaska's Fiscal Position and Projections**

[11:36:53 AM](#)

CHAIR SPOHNHOLZ announced that the only order of business would be a presentation on Alaska's Fiscal Position and Projections by Alexei Painter, Legislative Finance Division.

[11:37:24 AM](#)

ALEXEI PAINTER, Director, Legislative Finance Division (LFD), Legislative Affairs Agency (LAA), introduced a PowerPoint presentation, titled "Alaska's Fiscal Position & Projections" [hard copy included in the committee packet], and noted that the following slides would use LFD's fiscal models and projections to highlight future fiscal options for the state. He began on slide 2, which showed a summary of the governor's fiscal year 2022 (FY 22) budget request compared to the FY 21 budget. He stated that the spring revenue forecast update [line 3] increased projected revenue in FY 21 and FY 22, which is important, he said, because the governor's FY 22 budget request was written with a lower revenue expectation. Additionally, he highlighted that the FY 22 operating budget [line 7] decreased by \$220 million from FY 21. He explained that the decline was a reflection of some of the extraordinary circumstances in FY 20 and FY 21. He noted that \$94 million in unrestricted general funds (UGF) was appropriated for COVID-19 across FY 20 and FY 21, which appeared as revenue in line 5 and as spending in line 8. The decline [in the operating budget] was because the one-time money for COVID-19 was not carrying forward. Other reasons for the decline included the education formula, which was projected to decrease in FY 22. He expounded that the capital budget was also down due to the governor using \$104 million in Alaska Housing Finance Corporations (AHFC) bonds for a portion of the capital budget. He informed committee members that the governor was proposing an additional payment to increase the Permanent Fund Dividend (PFD) to the statutory amount of \$1.9 billion in FY 21; the governor was also proposing a statutory dividend totaling \$2 billion in FY 22.

MR. PAINTER directed attention to the pre-transfer surplus/(deficit) [line 17], which showed the state's cash flow. The figures indicated that there would be a projected \$1.76 billion deficit in FY 21 and a \$1.6 billion deficit in FY 22. He noted that per Alaska's constitution, all expenditures must be paid for, so the difference would come from the savings accounts. The governor was proposing a \$1.2 billion draw

directly from the Earnings Reserve Account (ERA) [line 18] in FY 21. The dividend of \$2 billion in FY 22 would be also directly from the ERA, which Mr. Painter defined as deficit spending. He continued to explain that \$578 million would come from the Constitutional Budget Reserve (CBR) account in FY 21 [line 20] and in FY 22, there would be a post-transfer surplus, meaning money would end up going back to the CBR at the end of the year. Lastly, he directed attention to the reserve balances [bottom right], which showed an increase to the CBR due to the post-transfer surplus and a decreasing ERA due to draws beyond the statutory percent of market value (POMV) transfer from the Alaska Permanent Fund.

[11:44:21 AM](#)

CHAIR SPOHNHOLZ noted that the governor was essentially proposing more than \$1.7 billion in spending, which required pulling from other accounts, including the ERA. Additionally, she asked when LFD began listing the ERA under budget reserves.

MR. PAINTER said January 2010. He explained that when the POMV draw began, [the ERA] went from being listed as an undesignated reserve to a designated reserve. He said arguably, the ERA should have been listed as a designated reserve before the POMV draw because of the dividend. He likened it to the Power Cost Equalization (PCE) fund, as the fund was used on an ongoing basis in the budget. He added that the fund had a balance that could be appropriated but appropriating that balance would cause a reduction to the amount available for that designated purpose.

CHAIR SPOHNHOLZ offered her understanding that although the Alaska Permanent Fund earnings could be appropriated for any reason, the legislature typically excluded them from the definition of available revenue. She sought to clarify why PCE, as well as other designated reserves, weren't included if the ERA was being described as a designated reserve account and compared to PCE.

MR. PAINTER said the full fiscal summary included the PCE fund, the Higher Education fund, and other major funds that were more static from year to year. He said the CBR account and ERA were included in the short fiscal summary [slide 2] because they were utilized more frequently in the budget.

[11:47:32 AM](#)

REPRESENTATIVE STORY asked if that held true for AHFC.

MR. PAINTER sought to clarify whether Representative Story was referring to the Alaska Industrial Development and Export Authority (AIDEA) funds that the governor was using for tax credits.

REPRESENTATIVE STORY pointed to the \$104 million.

MR. PAINTER said the \$104 million in AHFC bonding was not coming from reserves. Instead, it was lowering the governor's capital budget because the bonds would be paid off by the corporation over the next several decades, resulting in lower dividend revenue to the state from AHFC. He noted that AHFC's finances were not considered as part of the state's budget reserves.

[11:48:52 AM](#)

MR. PAINTER turned to slide 3, titled "About the LFD Fiscal Model," which read as follows [original punctuation provided]:

- Revenue is based on DOR's Spring Revenue Forecast
  - Assuming \$53 oil in FY21 and \$61 oil in FY22, adding \$331.7 million in FY21 and \$459.6 million in FY22 compared to fall forecast
- Permanent Fund returns are based on APFC's return assumption of 6.40% in FY21 and 6.75% in FY22-30, unless otherwise stated
  - Default assumption is no inflation proofing for FY21-24, statutory inflation proofing after (consistent with legislative intent)
- Assumes \$50 million for supplementals and 2.0% inflation growth on agency operations
- Assumes minimum \$500 million left in CBR
- Full version of the model includes many revenue and spending options.  
LFD can work with legislators who wish to see additional options
- A simplified, shorter-time horizon model is also available upon request

[11:51:36 AM](#)

REPRESENTATIVE STORY asked whether the inflation growth of 2.0 percent had been changed from 2.25 percent and why that change occurred.

MR. PAINTER explained the Callan LLC, the state's investment advisor, changed its forecast to 2.0 percent. He noted that the Alaska Permanent Fund Corporation (APFC) had not officially adopted that rate; however, it was in line with the Federal Reserve's forecast of inflation. He surmised that 2.0 percent would be the universal rate once APFC adopted it.

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REPRESENTATIVE STORY recalled when \$1 billion was the suggested minimum balance for the CBR. She asked how the new minimum of \$500 million was working "in balancing our checkbooks, so to speak."

MR. PAINTER related the CBR served two purposes: a cashflow account and a budget reserve. He stated that \$500 million was the bare minimum needed for cash flow; however, that amount left no room for the CBR to function as a budget reserve or weather a shock to the state's finances. He added that with a structurally balanced budget, \$2 billion would allow the CBR to serve both purposes.

[11:54:11 AM](#)

CHAIR SPOHNHOLZ noted that the CBR operated as a budget reserve for a long time. She informed committee members that the account had a balance of \$16 billion until it was depleted.

[11:54:25 AM](#)

REPRESENTATIVE SCHRAGE questioned the purpose of a budget reserve served and asked why it was needed.

MR. PAINTER conveyed that because Alaska's revenue was unusually volatile, a budget reserve allowed the state to avoid tying spending to short-term fluctuations in the oil market. He added that having a budget reserve allowed the state to react and "weather the storm" for 10 years; however, that time was not used to solve the deficit, he pointed out. He concluded that a budget reserve allows for time to react when there's large fluctuations and allows the state to avoid making short-term changes when there's small fluctuations.

[11:55:45 AM](#)

REPRESENTATIVE SCHRAGE asked what factors impact the forecasted inflation and inquired about the timeframe of the forecast.

Specifically, he questioned whether increased federal taxes would impact the forecasted inflation.

MR. PAINTER shared his belief that the assumption of 2.0 percent was based on the federal outlook; additionally, that Callan's forecast went through FY 30. He related that the forecast could be impacted by a number of factors, such as changes in taxes, federal spending policy, economic conditions, or Federal Reserve targets. He further noted that for many purposes, the U.S. inflation diverged from Alaska inflation, later adding that that the urban Alaska CPI was once referred to as the Anchorage CPI.

[11:58:05 AM](#)

CHAIR SPOHNHOLZ returned to slide 2 and pointed out that the governor was proposing to draw extra funds from the ERA. She highlighted the CBR draw on lines 21 and 22 that would "lapse into the CBR the previous year." She asked Mr. Painter to explain her observations.

MR. PAINTER said last year, the legislature changed the fund source for one-quarter of the budget from UGF to direct appropriations from the CBR. He specified that it was one-quarter of agency operations, half of the PFD, and one-quarter of retirement payments, which amounted to \$940 million that was directly authorized to come out of the CBR. He remarked:

When the governor made his vetoes, he essentially vetoed down to where, after those direct draws, there would be no remaining deficit; however, we've seen revenue increase and now there's a remaining surplus. ... I would liken it, in a kind of personal finance analogy, to - if you have zero dollars in your checking account and you have a \$500 dollar bill coming up ... and you transfer \$1,000 dollars from your savings rather than \$500 dollars, you drew \$1,000 dollars, you spent your \$500 on your credit card bill, and you still have \$500 in the bank. However, your real deficit, the amount you had to draw from your savings, is still the net of those, so you drew an extra \$500 dollars. And that's kind of what we did, where we said, we're not drawing the exact amount we need we're drawing this amount certain, and then that turned out to be more than we needed as revenue went up.

CHAIR SPOHNHOLZ opined that the legislature should return to the practice of drawing the necessary balance from the CBR to avoid repeating the same scenario in the future.

MR. PAINTER said at the end of the year, any post-transfer surplus would lapse back to the CBR; therefore, there would be no difference in balance. He noted that the practice of funding the capital budget directly from the CBR had been more problematic for administration because those are long-term projects that last over multiple years. If one of those projects were unneeded, he said, it would require a three-quarter CBR vote to change it.

[12:02:03 PM](#)

CHAIR SPOHNHOLZ referred to slide 3 and shared her understanding that the APFC considered adjusting the projected returns down from 6.75 percent. She inquired about the status of that effort.

MR. PAINTER reported that Callan had indicated that the outlook for FY 22 to FY 30 should be lowered to 6.2 percent; however, that would add the actual returns experienced in FY 21, which were significantly above the 6.4 percent assumption that APFC was using. He relayed that APFC was expecting to roll out that new assumption when the fiscal year closed. He expressed his hesitation to using partial year returns and projecting them forward and assured committee members that LFD would continue to use the forecasted returns.

CHAIR SPOHNHOLZ asked whether LFD updated its models based on formal actions taken by APFC.

MR. PAINTER answered yes, noting that LFD's goal was to match APFC's official projections.

[12:04:18 PM](#)

MR. PAINTER resumed the presentation on slide 4, which illustrated the governor's budget request before PFD distribution. The significant implication was the size of the gap (or lack thereof) in FY 22 and beyond. The left chart, titled "UGF Revenue/Budget," featured traditional revenue in blue, planned permanent fund draws in green, and CBR/Statutory Budget Reserve (SBR) draws in orange. The black dotted line represented the budget, and the solid black line represented the "budget less dividends." The chart on the right, titled "Budget

Reserves," featured the CBR balance in orange and the ERA balance in green. He explained that based on the spring revenue forecast, the state's fiscal position was expected to increase each year because revenue would increase faster than inflation. DOR projected that oil prices would increase exactly with inflation; however, because of the progressive production tax, total revenue increased faster than inflation, which resulted in growing surpluses. He noted that leaving out the dividend allowed for fiscal models to be considered without the large variable.

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CHAIR SPOHNHOLZ noted that in FY 21, the legislature funded a dividend just short of \$1,000 with \$680 million. She surmised that in FY 22, a "balanced" dividend would amount to \$450-\$475 if no other fiscal measures were passed before overdrawing the ERA. She asked if that was correct.

MR. PAINTER replied in the affirmative.

[12:07:16 PM](#)

REPRESENTATIVE EASTMAN observed that on slide 3, the CBR balance was projected to increase. He asked for the current amount owed to the CBR and when that obligation would be satisfied.

MR. PAINTER approximated that after the reverse sweep in FY 21, \$12 billion would be owed to the CBR. He opined that if no dividend were paid, it could be paid off "somewhere in the mid FY 30s."

[12:08:15 PM](#)

REPRESENTATIVE SCHRAGE sought to verify whether the chart on the right assumed no dividend payment and added the surplus above the budget [from left chart] to the CBR.

MR. PAINTER confirmed. He noted that LFD was attempting to show the fiscal scenario before paying a dividend, not suggesting what the state should do or would do.

[12:09:19 PM](#)

MR. PAINTER advanced to slide 5, titled "Unusual Fund Sources in Governor's Budget: Total of \$295.0 million," which read [original punctuation provided]:

- Use of lapsing balances in place of FY22 appropriations
  - \$35.0 million for Medicaid
  - \$5.0 million for fire break construction
  - \$5.0 million to OMB to smooth funding to rate-setting agencies
- Use of fund sources for non-designated purposes
  - \$60.0 million of AIDEA Receipts for oil and gas tax credits
- Based on Spring forecast, that amount will be \$114.0 million
  - \$10.5 million of PCE funds for AEA capital projects
    - \$4.0 million of Higher Education funds for prosecutor recruitment and housing
    - \$0.8 million of PCE funds for AEA operating budget
    - \$0.4 million of Higher Education funds for ACPE operations
- Use of one-time or temporary fund sources
  - \$104.0 million AHFC bond package for DOT and DEC match
  - \$16.3 million of Mental Health Trust Reserve funds

MR. PAINTER defined "unusual fund sources" as one-time fund sources or non-designated use of designated funds.

[12:14:45 PM](#)

REPRESENTATIVE EASTMAN sought further explanation of the \$114 million of AIDEA receipts for oil and gas tax credits based on the spring forecast.

MR. PAINTER explained that the tax credit calculation was based on the forecast and the production tax. Per the fall forecast, the amount of AIDEA receipts was \$60 million, which was based on 15 percent of the production tax levied before credits. In the spring forecast, a higher amount of production tax revenue was projected, which increased the formula to \$114 million, reflecting 10 percent of the production tax before credits. He further noted that the increase was based on the statutory formula, in which the formula switches from 15 to 10 percent when the price of oil is \$60 or higher.

[12:16:07 PM](#)

MR. PAINTER resumed the presentation, explaining that slide 6 adjusted the fiscal summary by replacing the unusual fund sources with UGF to give a clearer picture of the real size of the hole in the budget. He conveyed that collectively, the unusual fund sources increased the budget, resulting in a deficit of nearly \$1.8 billion in FY 21 and \$1.9 billion in FY 22. He noted that this lowered the CBR, while the ERA remained unaffected [bottom right].

[12:17:12 PM](#)

REPRESENTATIVE SCHRAGE returned to slide 5 and asked whether Higher Education funds had ever been used for prosecutor recruitment and housing.

MR. PAINTER answered no; however, he said the Higher Education funds were used for other non-designated purposes.

[12:17:37 PM](#)

MR. PAINTER proceeded to the model on slide 7, which illustrated the fiscal summary on slide 6. He concluded that the short-term and long-term surpluses were smaller compared to the fiscal model on slide 4. He continued to slide 8, titled "How Federal COVID-19 Relief Impacts Alaska's Budget," which read [original punctuation provided]:

- Federal Medical Assistance Percentage (FMAP) increase from 50% to 56.2% for non-expansion population effective since March 2020
  - Saves Alaska \$15-17 million UGF per quarter in Medicaid program
  - Likely to be extended through end of CY2021
- Coronavirus Relief Fund (CRF) used before State funds created lapse in FY20 and FY21
- Ongoing federal funds to DOTPF through FY24 for airports (\$82.5 million), highways (\$124.4 million), and Federal Transit Authority grants (\$84.6 million)
  - \$14.6 million of fund changes in Governor's FY22 budget to utilize DOTPF funds in place of general funds
- CARES funds have mostly been expended, but CRRSA and ARP have mostly not yet been incorporated into the budget

[12:21:00 PM](#)

REPRESENTATIVE STORY returned to slide 6 and inquired about the CBR draw of \$588.1 million in FY 21 [line 23], asking how that translated to the reserve balance of \$850 million [bottom right].

MR. PAINTER said the reserve balance of \$850 million reflected the remaining balance after the \$588.1 million draw from the CBR.

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REPRESENTATIVE JOSEPHSON, referring to slide 8, highlighted the ongoing federal funds to the Department of Transportation & Public Facilities (DOT&PF) through FY 24 and asked what would stop the legislature from underfunding airports and highways. He questioned whether that could be a way to "backfill."

MR. PAINTER confirmed that it is a way [to backfill], noting that the governor proposed reducing UGF revenue going to airports and replacing that with federal funds. Alternatively, the House Finance subcommittee could use those federal funds in place of the Marine Highway fund rather than UGF funding with the goal of building up a balance in that account for future use in the marine highway budget. He indicated that the legislature could use those funds with a lot of discretion.

[12:23:58 PM](#)

REPRESENTATIVE JOSEPHSON sought to confirm that the third bullet point was CRRSAA [Coronavirus Response and Relief Supplement Appropriations Act] moneys as opposed to CARES [Coronavirus Aid, Relief, and Economic Security] Act moneys.

MR. PAINTER said the two were combined for this purpose. He explained that airport funds were in both the CARES Act and CRRSAA; the CARES Act funds could be used for either operating or capital, while CRRSAA money could only be used for operating and was allocated per airport. He noted that the governor's budget was released before CRRSAA was passed, so the governor used money from the CARES Act instead; however, he emphasized the need for CRRSAA money to be used in the operating budget because of the restriction on those funds. He suspected that the governor or the legislature would address that in the future.

[12:25:01 PM](#)

MR. PAINTER reviewed slide 9, titled "American Rescue Plan (ARP) Impacts," which read as follows [original punctuation provided]:

- Alaska is set to receive \$1.019 billion of flexible funds, plus \$112.3 million of flexible capital funds
- Awaiting guidance on these funds - these are not yet factored into the budget
- Also includes \$230.7 million for local governments
- Many more specific areas, including \$358.7 million for K-12 schools
- For details, see the March 26 Senate Finance Committee hearing meeting documents

MR. PAINTER said the significant implication was that only the \$14.6 million fund change was influencing the size of the budget despite all the federal funding coming in.

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CHAIR SPOHNHOLZ shared her belief that the federal government may temporarily bail Alaska out given the size of the ARP funds.

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REPRESENTATIVE JOSEPHSON speculated that if the legislature were to pass an operating budget and adjourn on May 18, 2021, without touching those funds, the money could come [to the legislature] through the Revised Program Legislative (RPL) process. He asked if that was correct.

MR. PAINTER confirmed.

[12:28:08 PM](#)

REPRESENTATIVE JOSEPHSON considered a scenario in which the legislature appropriated the moneys on May 17, 2021, and half was vetoed by the governor. He questioned what would happen to the vetoed dollars.

MR. PAINTER explained that many of the funds have a multi-year timeframe; therefore, "they could just wait until next year or the governor could submit RPLs unless there's some ... specific prohibition on the governor from doing that."

[12:28:56 PM](#)

CHAIR SPOHNHOLZ noted that the governor introduced RPLs that were out of order because they created new programs. She expounded that the RPL process was designed to accept federal funds for programs that already exist. As a result, she continued, a lawsuit was filed, and the legislature had to reconvene to ratify the RPLs. She emphasized the importance of the legislature being part of the appropriation process.

[12:30:35 PM](#)

MR. PAINTER addressed the fiscal summary on slide 10, which was adjusted for COVID-19 funding. He noted that that there was little difference in the bottom line; however, the \$88.1 million decreased to \$67 million in terms of post-transfer surplus, and the reserve balance was slightly impacted as well. The significant point of slide 10 was to show that the \$14.6 million in COVID-19 funding had little impact on the UGF budget.

CHAIR SPOHNHOLZ opined that the scale of CRRSAA and APA funds was missing from slide 10. She pointed out that a large amount of funding had not been appropriated yet; therefore, it was not reflected in the fiscal summary. She asked if that was accurate.

MR. PAINTER answered yes.

[12:31:49 PM](#)

MR. PAINTER briefly summarized the fiscal model on slide 11, noting its similarity to [slide 7] with the addition of the \$14.6 million. He speculated that if this slide were to be recreated at the end of session, it would show a much bigger change than \$14.6 million. He continued to slide 12, titled "Obligations and Funding Needs of the State of Alaska," which read as follows [original punctuation provided]:

This is not an exhaustive list. The total for these items is about \$13 billion

- PERS/TRS Unfunded Liability: **\$6.2 billion**
  - Payment plan: annual payments through FY39
  - FY22 payment is \$336.2 million
- General Obligation Bonds and State Supported Debt: **\$1.1 billion**
  - Payment plan: annual payments through FY41

- FY22 Governor's Budget includes \$91.3 million
- State Share of Municipal School Debt Service: **\$789.1 million**
  - Payment plan: annual payments through FY39
  - Full funding in FY22 would be \$84.0 million
- Oil and Gas Tax Credits: **\$760.0 million**
  - Payment plan: statutory deposits to Oil and Gas Tax Credit Fund
  - FY22 Governor's Budget includes \$60.0 million
- Deferred Maintenance: **\$2.0 billion**
  - Payment plan: annual appropriations using Alaska Capital Income Fund
  - FY22 Governor's Budget includes \$51.6 million
- State Share of School Major Maintenance and Construction Lists: **\$349.6 million**
  - Payment plan: REAA fund can be used for some projects; no plan for remaining projects
- Rural Alaska Sanitation Funding Need (per DEC FY21 list): **\$1.8 billion**
  - Payment plan: Village Safe Water capital program
  - FY22 Governor's Budget includes \$18.1 million of state funds, \$70.8 million total funds
- Rural Power System Deferred Maintenance: **\$327 million**
  - Payment plan: capital appropriations to Rural Power Upgrades program
  - FY22 Governor's Budget includes \$5 million of state funds, \$17.5 million of total funds
- Bulk Fuel Deferred Maintenance: **\$800 million**
  - Payment plan: capital appropriations to Bulk Fuel Upgrades program
  - FY22 Governor's Budget includes \$5.5 million of state funds, \$13 million total

MR. PAINTER stated that the point of slide 12 was to show that the state has a lot of obligations, most of which have a payment plan that exists somewhere in the budget.

[12:34:54 PM](#)

CHAIR SPOHNHOLZ asked whether general obligation bonds could be used to address deferred maintenance needs.

MR. PAINTER said, "that's a legally debatable question," and deferred to Legislative Legal Services. He explained that per the constitution, general obligation bonds could be utilized

only for capital improvements. He acknowledged that the line between a deferred maintenance project and a capital improvement could be "a little fuzzy."

[12:35:59 PM](#)

MR. PAINTER advanced to slide 13, titled "Legislative Power of Appropriation," which read [original punctuation provided]:

- "No money shall be withdrawn from the treasury except in accordance with appropriations made by law." (Article IX, sec. 13). The dedicated funds prohibition (Article IX, sec. 7) prevents the legislature from dedicating the proceeds of any state tax or license to any special purpose.
- An appropriation is required to carry out any statutory formula.
- In *Wielechowski v. State*, the Alaska Supreme Court held that the legislature's use of permanent fund income is subject to the normal appropriation and budgetary veto process. Thus, each year, the legislature may appropriate from the earnings reserve account to the dividend fund any amount, regardless of the language in statute.
- Unless an exception to the dedicated funds prohibition applies, each year, the legislature may appropriate money from any available source, for any public purpose, as it deems appropriate. Statutory formulas serve as guidelines or policy suggestions for the legislature to follow.
- In general, each year, all state programs are subject to appropriation.

MR. PAINTER emphasized that the legislative power of appropriation could trump statutory formulas.

CHAIR SPOHNHOLZ, referencing the first bullet, addressed the sentiment that the legislature "should follow the law" in regard to the PFD by noting that the operating budget is also a law that is passed each year. She discussed consistency in the legislature and explained that sometimes conflicting laws were passed. She said it's helpful to try to reconcile those laws, but often very difficult politically.

[12:38:59 PM](#)

MR. PAINTER turned to slide 14, titled "Governor's Budget and Statutory Formulas," which read [original punctuation provided]:

- Governor funds School Debt Reimbursement at 50% of statutory level
  - 100% funding would add \$41.8 million to the FY22 budget
- Governor funds Regional Educational Attendance Area (REAA) Fund at 50% of statutory level
  - 100% funding would add \$17.1 million to the FY22 budget
- Governor funds Community Assistance at \$12.4 million, versus the \$30.0 million statutory deposit
  - 100% funding would add \$17.6 million to the FY22 budget
- Governor does not fund municipal project debt service
  - 100% funding would add \$2.4 million to the FY22 budget

MR. PAINTER noted that the statutory formulas were subject to appropriation. He elaborated that in some cases, the governor suggested that the legislature should appropriate less than the full formula.

[12:41:12 PM](#)

REPRESENTATIVE JOSEPHSON reflected on the recent discussion about the legislature failing to meet maintenance of effort requirements in bullet one and two. He sought to verify whether that was a federal requirement.

MR. PAINTER asked whether Representative Josephson was referring to the maintenance of effort requirement in both CRRSAA and ARP.

REPRESENTATIVE JOSEPHSON answered yes.

MR. PAINTER confirmed that the federal government required that the legislature maintain K-12 and university effort to receive those funds.

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REPRESENTATIVE JOSEPHSON inquired about the dispute or concern [surrounding the maintenance of effort provision].

MR. PAINTER relayed that all three federal relief bills - CARES Act, CRRSAA, and ARP - had a maintenance of effort provision tied to the K-12 aid. He reported that Alaska passed the maintenance of effort provision required for the CARES Act, which was based on the per-student level of funding. Alternatively, in both CRRSAA and ARP, the maintenance of effort provision was tied to both the University of Alaska and K-12, indicating that the K-12 funds could not be received without passing both. He noted that recent guidance indicated that Alaska could receive the first two-thirds of school funds from ARP, then certify to qualify for the last one-third. He summarized that the new maintenance of effort provision in CRRSAA and ARP was based on the percentage of state budget that went towards those purposes; essentially, that the state was spending the same percentage of the budget in FY 22 and FY 23 on education and K-12 as before the pandemic (FY 17 to FY 19). He stated that K-12 might be at the right level to pass due to the statutory formula; however, because of the university compact, the requirement would not be met for the University of Alaska, as the state was funding the university at a smaller percentage of the budget in FY 22 compared to FY 17 through FY 19. He speculated that the state could argue that the compact was instituted before COVID-19; therefore, it was not a response to the pandemic or the federal aid. He conveyed that the federal government was concerned that states would reduce these programs and substitute them with federal money. He noted that there was a waiver process for states that experienced significant revenue decline, which Alaska could qualify for. He concluded that there was substantial uncertainty about whether the state would meet the maintenance of effort provision.

[12:45:25 PM](#)

REPRESENTATIVE STORY remarked:

With the funds for K-12, we had a \$30 million veto outside the formula, and we did use CARES funds - the governor did - to supplant that money. ... If you just see what was awarded it matches exactly what they would have gotten if they would have kept the \$30 million in the formula.

REPRESENTATIVE STORY sought to confirm that Mr. Painter had said that does not count, as K-12 was meeting that maintenance of effort requirement.

MR. PAINTER clarified that the maintenance of effort requirement was satisfied for CARES Act funding. He added that based on LFD projections, it would depend on the final budget for FY 22 and FY 23. He said because the budgets are generally smaller than they were in FY 17 to FY 19, even without the additional funding for K-12, the state could still meet the requirement. He reiterated that it would depend on where the budget ended up and how the formula could be calculated, as there may be some flexibility in what would count, such as TRS [Teachers' Retirement System] payments, which had substantially increased over that time period.

[12:47:20 PM](#)

REPRESENTATIVE WOOL concluded that the maintenance of effort for K-12 and the university was linked and therefore, must be maintained as a group. He sought to confirm that if K-12 was maintained but the university was not, the federal funding for both would not be released - at least not fully.

MR. PAINTER answered yes, the state would have to pass for both K-12 and the university to certify that the maintenance of effort was met, which was required for the last third of the ARP funding.

[12:48:03 PM](#)

REPRESENTATIVE WOOL reasoned that because the PFD was included in the budget, the higher the PFD, the higher the threshold for the maintenance of effort. He asked, "where are we standing on the PFD, as far as the budget goes. Based on the governor's budget or what we ultimately pass?" He assumed that a smaller PFD would make it easier to satisfy the maintenance of effort requirement.

MR. PAINTER said it is unclear whether the PFD could or would be included. He reported that the executive branch discussed that with the U.S. Department of Education and did not receive an answer.

REPRESENTATIVE WOOL asked for confirmation that when Mr. Painter said, "we're pretty close on K-12 but pretty far away on university," that statement was independent of whether the PFD would be counted.

MR. PAINTER said the size of the dividend and whether the PFD would be counted could either help or hurt the effort to meet

the requirement. He added that it's difficult to say without a definitive budget.

[12:50:01 PM](#)

MR. PAINTER reviewed the fiscal summary on slide 15, which showed the governor's budget adjusted with the additional \$78.9 million to fully fund the statutory formulas that were reflected in statewide items. He indicated that the FY 22 budget would increase, and the post-transfer number would go from surplus to deficit. He continued to the bar chart on slide 16, highlighting the deficit in FY 22 and smaller surpluses in the outyears. He discussed the different dividend scenarios on slide 17. The slide showed a statutory PFD beginning in FY 22. He noted that statutory dividend would require additional funds beyond the CBR resulting in unplanned ERA draws moving forward, which would eventually drain the ERA to zero. He pointed to the gap in FY 30, which signified the lack of available funds to pay for the budget. He said the significant implication is that paying a statutory dividend would require budget reductions or new revenue to balance the budget.

CHAIR SPOHNHOLZ said that would require a significant amount of revenue. She added that potentially, enough revenue proposals were on the table to fill the gap, but it would be a "massive lift" to accomplish that. She addressed the bar chart [right] showing budget reserves and observed that the ERA balance would be negligible by FY 28, resulting in no dividend and a gutted budget. She asked if that description was accurate.

[12:53:02 PM](#)

MR. PAINTER said yes, continuing to distribute the dividend without reducing the budget or adding new revenue would result in a sudden cliff in FY 30 that would require a lot of quick reductions.

[12:53:25 PM](#)

REPRESENTATIVE WOOL asked whether the permanent fund plan [green portion] reflected the reduced value of the Alaska Permanent Fund after calculating the 5 percent POMV.

MR. PAINTER answered yes. He added that it assumed that the 6.75 percent returns were met. He opined that in the real world, if this much extra were drawn from the Alaska Permanent Fund, APFC would have to change its asset allocation to create

more cash availability, which would result in lower returns. He concluded that in some ways, this fiscal model was more optimistic than what an overdraft scenario would actually look like because of the policy response APFC would have to take.

[12:54:32 PM](#)

CHAIR SPOHNHOLZ said it was a staggering slide. She noted that slide 19 would illustrate the volatility, elaborating that the returns realized from the permanent fund were more volatile than a stable 6.75 percent. She further noted that 25 percent of the UGF revenue came from a volatile source, the oil industry. She concluded that slide 18 was not reflective of a real-life scenario.

[12:55:19 PM](#)

REPRESENTATIVE SCHRAGE characterized the bar chart as "Doomsday-ish." Nonetheless, he said it was the chart that matched the governor's budget proposal most closely with the inclusion of statutory dividends, no new revenue, and no substantial cuts. He asked if that was correct.

MR. PAINTER clarified that the governor proposed a change in the dividend formula to 50 percent of the POMV draw, as shown in a subsequent slide. Further, he maintained that the governor would also be proposing some unspecified cuts and unspecified revenue. He said the dividend change would make a significant difference.

[12:56:23 PM](#)

MR. PAINTER continued to slide 18, which showed the same fiscal model; however, instead of the static 6.75 percent return, the model assumed the actual return to the permanent fund experienced from FY 2000 to FY 2008. He noted that during that period, the average return was just short of 6.75 percent, but quite volatile. That timeframe incorporated the "dotcom bust" in the early 2000s and the beginning of the 2008 recession. He highlighted the bumpiness of the budget line, explaining that the current statutory dividend formula was based on earnings; therefore, as the earnings were more volatile, the dividend amount was more volatile. Consequently, models that use actual returns show a much more volatile statutory dividend compared to static versions. He added that the effect of the early recession was that the state would run out of money quickly

without the ability to recover because the base to draw upon would be lower.

[12:57:44 PM](#)

MR. PAINTER turned to the fiscal model on slide 19, which assumed real returns from the period of FY 09 to FY 17. He noted that FY 09 was the worst year for the Alaska Permanent Fund, while FY 10 to FY 17 was an extended bull market. The effect, as shown on slide 19, was that the ERA would drop substantially in the first year and deplete to zero because of overdraws. He highlighted the small size of the dividend, which the model forecasted would occur with the statutory formula in addition to a recession.

[12:58:58 PM](#)

CHAIR SPOHNHOLZ thanked Mr. Painter and announced that he would return to finish the presentation on a later date [4/8/21].

[12:59:46 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 12:59 p.m.