

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

January 18, 2022

11:29 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

OVERVIEW: GOVERNOR'S 10-YEAR PLAN

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

NEIL STEININGER, Director
Office of Management and Budget
Office of the Governor
Juneau, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation, titled "10-Year Plan Overview."

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

POSITION STATEMENT: Provided a PowerPoint presentation, titled "Comparison of Governor's 10-Year Plan to LFD Baseline."

ACTION NARRATIVE

[11:29:35 AM](#)

CHAIR IVY SPOHNHOLZ called the House Special Committee on Ways and Means meeting to order at 11:29 a.m. Representatives Story, Schrage, Prax, and Spohnholz were present at the call to order. Representatives Eastman, Wool, and Josephson arrived as the meeting was in progress.

OVERVIEW: Governor's 10-Year Plan

[11:30:15 AM](#)

CHAIR SPOHNHOLZ announced that the only order of business would be the Governor's 10-Year Plan overview.

[11:31:22 AM](#)

NEIL STEININGER, Director, Office of Management and Budget, Office of the Governor, provided a PowerPoint presentation, titled "10 Year Plan Overview" [hard copy included in the committee packet].

[11:32:16 AM](#)

The committee took a brief at-ease at 11:32 a.m.

[11:32:21 AM](#)

MR. STEININGER stated that the 10-year plan submitted by the governor details sources of revenue and the uses of funds. This includes budgets and projected balances of savings accounts. He stated that these savings accounts are used to balance the budget for the general fund, as funds must balance during the [administration's] term while providing for essential state services and economic stability. He stated that assumptions in the plan are clearly articulated so policy makers can understand the projections put forth by the administration. He pointed out the 10-year fiscal outlook detailed on slide 3, which shows that deficits would be converted into surpluses, rebuilding the savings balance. The capital budget would be held flat providing the baseline capital needed for the continuation of existing programs. He stated that these numbers do not reflect the influx of funds from the infrastructure bill, as this amount was uncertain at the time of the release of the budget. In response to Representative Story's question, he indicated that the higher education funds were included in "swept" balances. The capital budget for the fiscal year 2023 (FY 23) is a

baseline budget which achieves a match for federal programs. He stated that some of the non-match recurring programs, as deferred maintenance, would fall under the general fund appropriations in the capital budget through the Alaska Capital Income Fund.

[11:43:07 AM](#)

MR. STEININGER moved on to slide 4, which details the sources of revenue for the state. He stated that assumptions made in the 10-year plan are based on work completed by the Department of Revenue (DOR) in its Fall 2021 Revenue Sources Book. The percentage of market value (POMV) is adjusted by half, and, per the 50/50 dividend plan, half would go toward permanent fund dividends (PFDs). He stated that revenue adjustments would include the carryforward, or the balance of unspent, multiyear appropriations from FY 22. Undesignated savings are direct appropriations from the statutory budget reserve made by the legislature in FY 22. He continued that because of the American Rescue Plan Act (AARPA), federal COVID-19 funds were proposed for revenue replacement; however, this does not reflect the \$1 billion available from AARPA. He stated that a considerable portion of these funds were directly appropriated to programs which met the non-revenue replacement rules of AARPA. In the FY 23 budget the AARPA funds would be used to backfill the operating budget.

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MR. STEININGER pointed out on slide 5 the agency's assumptions for operating expenditures. He stated that formula programs are set in law, statute, or regulation. This requires the payouts to be based on a mathematical formula. He added that there is less budgetary discretion in these items, and he discussed the K-12 formula, which has population as its primary factor. He stated that the growth factor in this formula would allow for a post pandemic shift back to brick-and-mortar schooling. He discussed the formula for Medicaid, stating that it would have a 1 percent annual expenditure growth applied to FY 25 and beyond, which allows for provider rate increases and a slightly growing population. He said that a third of Alaska's population is enrolled in Medicaid, and this "likely" indicates a "high water mark." He said that a 1.5 percent annual expenditure growth was applied to the agency non-formula. He added that the Consumer Price Index is not a factor which drives these decisions.

[11:52:16 AM](#)

MR. STEININGER responded to a question from Representative Eastman about the "other formula" which contains at least a dozen or more formula programs throughout the Department of Health and Social Services. These include the Office of Childrens Services, the Division of Public Assistance, and other Department of Education and Early Development budget items which are not part of the K-12 formula. He stated that a list of these items would be provided to the committee. In response to Representative Wool's concern about the "meager" reflection of inflation in the K-12 budget, he explained that because of the shifts between correspondence learning and brick-and-mortar schools, the projection was based on the makeup of the formula in the coming years. He said there was a 1.5 percent buffer, which does not change the K-12 formula, and the administration has not proposed any changes to the K-12 formula in relation to the base student allocation. He continued that forward projections only take into consideration current information and must consider whether there would be a constrained revenue environment.

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MR. STEININGER stated that slide 6 goes into statewide expenditures, which are non-agency operating budget items. He remarked that DOR has provided the debt projections. He said that \$22.8 million of general obligation bond debt for FY 24 was added, as well as the municipal school bond debt reimbursement. The school bond debt was added at a 50 percent statutory level for FY 24 and beyond, which assumes the continuation of a moratorium on new debt. He said that other mechanisms may be used to fund projects for future facilities in school districts. He remarked that the administration's policy does not reflect reimbursing local debt for municipal school improvement projects. He continued that the state retirement payments include the actuarial projection for the Public Employees' Retirement System and the Teachers' Retirement System. This assumes that contributions would remain flat at \$4.6 million. He continued that oil and gas tax credits were based on the projection by DOR using the statutory calculation, and the liability will be fully addressed in FY 26. He pointed out the fixed annual deposit of \$5 million in the disaster relief fund, which could fluctuate year to year, depending on future disasters. He stated that zero has been assumed beginning in FY 24 for other fund capitalizations and transfers.

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MR. STEININGER, moving to slide 7, discussed capital expenditures. He said general fund capital expenditures were held flat beginning in FY 24, and supplementals were assumed to net with lapsed funds in out years. He stated that significant investments in baseline funding for fire suppression and prevention would reduce projected supplemental needs. He explained that unanticipated supplementals tended to come from fire suppression in the past, and increasing baseline funding for fire suppression would help alleviate the need for large dollar supplementals over time.

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MR. STEININGER discussed the Constitutional Budget Reserve (CBR) balance. He said CBR includes a beginning balance from FY 22, and this reflects an estimated \$490.4 million from swept sub funds. He added that this would be adjusted once the final financial reports are available. Based on [past] earnings, he stated that assumed earnings will have a 2.25 percent rate of return. He added that the deposits were based on the Fall 2021 Revenue Sources Book projections. He stated that the surplus draws came from a calculation of expenditures and revenue. Designated savings were swept into an unrestricted savings account from which the 10-year fiscal plan proposes to draw about \$700 million over the next few years.

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MR. STEININGER mentioned that the 10-year plan is not a reflection of every policy decision which must be made over the next 10 years; rather, it is what the governor has proposed for fiscal reform. He added that constitutional reforms, which address Alaska's fiscal shape, have been proposed in several pieces of legislation. He stated that future budget topics would include reshaping the Alaska Marine Highway System, addressing Medicaid cost containment, and the post-sweep transitioning of designated funds. He concluded that general work on government efficiencies is ongoing to ensure unsustainable deficits are avoided.

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ALEXEI PAINTER, Director, Legislative Finance Division, Division of Legislative Affairs Agency, provided a PowerPoint presentation, titled "Comparison of Governor's 10-Year Plan to LFD Baseline" [hard copy included in the committee packet]. He

stated that the division's fiscal model has been designed to show policy makers the long-term impact of fiscal policy decisions. The baseline was created using the assumption that the current budget levels would be maintained with inflation adjustments. Policy changes would then be applied against this baseline. The division's baseline assumptions were from the DOR's Fall 2021 Revenue Sources Book, and Callan's markets assumptions were used for the PFD. Spending assumptions for agency operations assumed that the governor's FY 23 budget would grow with inflation at a rate of 2 percent. For statewide items, the baseline has assumed that all items would be funded to their statutory levels for FY 23 and beyond. These items include school bond debt reimbursement, the regional educational attendance area (REAA) fund, the Community Assistance Program, and the oil and gas tax credits. He stated that the assumption for the capital budget was 2 percent growth with inflation, and \$50 million per year was assumed for supplementals, which was based on the average amount of supplemental appropriations minus lapsing funds each year.

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MR. PAINTER referenced the graph on slide 5 and said that the division's modeling baseline has a deficit of about \$1.5 billion this year and, if using the statutory PFD, about a billion per year over the next few years. He said the statutory PFD for this year would be \$4,200 per person, and this would create large deficits, requiring an overdraft of the earnings reserve account (ERA). Moving to slide 6, he advised that the governor's 10-year plan involves several policy changes, which include changing the PFD amount to 50 percent of POMV, and school debt reimbursement would be funded at 50 percent beginning in FY 24, with the REAA fund cap reduced to a flat \$17.5 million. He highlighted the differences between the division's baseline and the governor's 10-year plan, as seen on slide 7 through slide 12. He pointed out the only substantive difference is the division's assumption that new debt would be added to the school bond debt reimbursement once the moratorium expires. Pointing out the differences, he said the governor's 10-year plan would include fund transfers with statewide items, while the division would separate them. Also, he said that the division would have a slightly different CBR starting balance because of estimates on pre-audit actuals.

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MR. PAINTER stated that in FY 24 the governor's 10-year plan would be about \$200 million below the division's baseline, and by FY 2031 it would be about \$400 million below the baseline. He pointed out that growth slower than inflation is the most "powerful policy change" the governor is proposing. Directing attention to slide 10, he said the darker colors represent the baseline, while lighter colors represent the governor's 10-year plan of statewide items, such as debt service, retirement, and fund caps. He said there is a \$40 million to \$70 million per year difference between the division's baseline and the 10-year plan. On slide 11, Mr. Painter pointed out that with the 50/50 PFD plan, there would be significant deficits totaling between \$300 million to \$500 million.

CHAIR SPOHNHOLZ noted that the difference between a statutory dividend and the adjusted base assumptions results in a massive difference in the ERA balance. She observed that, given the PFD is the largest source of income and most stable, the governor's plan would reduce ERA by half.

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MR. PAINTER concluded by noting that the division has recognized that future fiscal planning is unusual in other states. He expressed his appreciation for the work the committee was doing.

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CHAIR SPOHNHOLZ thanked Mr. Painter and provided closing remarks.

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ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 12:55 p.m.