ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS
April 21, 2022
11:32 a.m.

MEMBERS PRESENT

Representative Ivy Spohnholz, Chair
Representative Andy Josephson
Representative Calvin Schrage
Representative David Eastman

MEMBERS ABSENT

Representative Adam Wool, Vice Chair
Representative Andi Story
Representative Mike Prax

COMMITTEE CALENDAR

PRESENTATION: FISCAL MODELING OF PFD/POMV PROPOSALS IN VARIOUS FISCAL ENVIRONMENTS

- HEARD

HOUSE BILL NO. 260
"An Act relating to use of income of the Alaska permanent fund; relating to the amount of the permanent fund dividend; relating to the duties of the commissioner of revenue; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 260
SHORT TITLE: PFD: 50/50 POMV SPLIT
SPONSOR(s): REPRESENTATIVE(s) SNYDER

01/18/22	(H)	PREFILE RELEASED 1/7/22
01/18/22	(H)	READ THE FIRST TIME - REFERRALS
01/18/22	(H)	W&M, FIN
03/10/22	(H)	W&M AT 11:30 AM DAVIS 106
03/10/22	(H)	Heard & Held
03/10/22	(H)	MINUTE(W&M)
03/15/22	(H)	W&M AT 11:30 AM DAVIS 106
03/15/22	(H)	-- MEETING CANCELED --

04/14/22	(H)	W&M AT 11:30 AM DAVIS 106
04/14/22	(H)	-- MEETING CANCELED --
04/21/22	(H)	W&M AT 11:30 AM DAVIS 106

WITNESS REGISTER

ALEXEI PAINTER, Director
Legislative Finance Division
Legislative Agencies and Offices
Juneau, Alaska
POSITION STATEMENT: Co-presented a PowerPoint presentation, "Fiscal Modeling: House Ways & Means Committee Scenarios," dated 4/21/22.

CONOR BELL, Fiscal Analyst
Legislative Finance Division (LFD)
Legislative Agencies and Offices
Juneau, Alaska
POSITION STATEMENT: Co-presented a PowerPoint presentation, "Fiscal Modeling: House Ways & Means Committee Scenarios," dated 4/21/22.

REPRESENTATIVE LIZ SNYDER
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: As the prime sponsor of HB 260, reviewed the bill's provisions.

ED MARTIN
No address provided
POSITION STATEMENT: Testified in opposition to HB 260.

ADAM HYKES
No address provided
POSITION STATEMENT: Testified in opposition to HB 260.

ACTION NARRATIVE

11:32:28 AM

CHAIR IVY SPOHNHOLZ called the House Special Committee on Ways and Means meeting to order at 11:32 a.m. Representatives Eastman, Schrage, Josephson, and Spohnholz were present at the call to order.

PRESENTATION: Fiscal Modeling of PFD/POMV Proposals in Various Fiscal Environments

11:33:10 AM

CHAIR SPOHNHOLZ announced that the first order of business would be a presentation by the Legislative Finance Division on fiscal modeling of PFD/POMV proposals in various fiscal environments.

11:33:28 AM

ALEXEI PAINTER, Director, Legislative Finance Division (LFD), Legislative Agencies and Offices, co-presented a PowerPoint presentation titled "Fiscal Modeling: House Ways & Means Committee Scenarios," dated 4/21/22. He began with slide 2, "Outline," which read as follows [original punctuation provided]:

- Review of LFD Modeling Baseline Assumptions
- Comparison of House Ways & Means Committee Assumptions to LFD Baseline
- Fiscal Models Using Committee Assumptions

MR. PAINTER covered the information on slides 3, 4, and 5, "Review of LFD Modeling Baseline," pausing for questions throughout. Slides 3-5 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 essentially that current budget levels are maintained, adjusted for inflation. Policy changes are then applied against that baseline.
- Our default is to assume that statutory formulas will be followed.
  - This includes a statutory PFD beginning FY23.

Revenue Assumptions

- LFD's baseline revenue assumptions are the Department of Revenue's Spring Revenue Forecast.
  - This assumes $101 oil in FY23, following futures market thereafter.
  - DNR oil production forecast projects that Alaska North Slope production will increase from 502.3 thousand barrels per day in FY23 to 576.6 thousand barrels per day in FY31.

- For the Permanent Fund, we use Callan's return assumption of 5.86% total return in FY22 and 6.20% thereafter.

Spending Assumptions

- For **agency operations**, these scenarios assume the Governor's FY23 amended budget grows with inflation (2.25%).
- For **statewide items**, the baseline assumes that all items are funded to their statutory levels beyond FY23.
  - This includes School Debt Reimbursement, the REAA Fund, Community Assistance, oil and gas tax credits.
- For the **capital budget**, we assume the Governor's FY23 capital budget grows with inflation (2.25%)
- For **supplementals** we assume $50.0 million per year. This is based on the average amount of supplemental appropriations minus lapsing funds each year.

MR. PAINTER, in discussing revenue assumptions (slide 4), added that the [Department of Revenue's (DOR's) spring 2022] forecast came out about a month ago; oil prices have been volatile; and the current futures market, having gone up and down, is similar to the spring forecast.

11:35:23 AM

CHAIR SPOHNHOLZ asked for confirmation that the assumption of a $101 dollar per barrel oil is an average over an entire fiscal year rather than a particular moment in time.

MR. PAINTER confirmed that is correct. He said he thinks the assumption would be that it starts higher and declines through the year.

MR. PAINTER returned to slide 5 and noted that the spending assumptions are based on the governor's budget but will switch to the conference committee budget once it is available in the next few weeks. He said LFD used 2 percent inflation earlier in the legislative session, but Callan recently set it at 2.25 percent so that is now LFD's new inflation assumption. He acknowledged that current inflation is significantly higher, but Callan has predicted that that will even out over time. He invited the committee to consider whether it thinks 2.25 percent

inflation is a good assumption or whether it would like to look at something higher.

CHAIR SPOHNHOLZ offered her understanding that inflation over the last 12 months has been at about 8 percent or a bit upwards.

MR. PAINTER responded yes but noted that Alaska's inflation rate is lower, in the range of 4-5 percent a year, so more than twice LFD's assumption. He said the budgets from the House and Senate reflect 4-5 percent rather than 2.25 percent.

MR. PAINTER returned to slide 5 and pointed out that the spending assumption for the capital budget also includes a separate infrastructure bill introduced earlier this month.

11:38:38 AM

REPRESENTATIVE JOSEPHSON asked whether Mr. Painter believes there will be capital items in the [federal] Infrastructure Investment and Jobs Act (IIJA) that will be perpetual in their demands on the state treasury.

MR. PAINTER answered that most of the unrestricted general funds (UGFs) in the IIJA bill are for matching for the Department of Transportation and Public Facilities' service transportation program, and a little is for the Department of Environmental Conservation (DEC). Because this was a five-year authorization, he said, the expectation is that it will go on for at least those five years. Generally, transportation bills run on five years at a time, he continued, so using that current amount is probably the better baseline than the previous transportation bill that was had before the IIJA bill. That number can go up or down with each reauthorization, he noted, but generally it has gone up rather than down when a new bill has been passed.

MR. PAINTER resumed the presentation and turned to the graphs on slide 6, "LFD Modeling Baseline." He stated that LFD's baseline projects a surplus in fiscal year 2022 (FY 22), FY 23, and FY 24, and deficits in years thereafter. Regarding the graph labeled "UGF Budget/Revenue," he explained that the bars depict revenue while the lines depict budget. He said the blue within the bars depicts traditional revenue such as oil and gas taxes and corporate income taxes; green depicts the percent of market value (POMV) draw from the permanent fund; and the other colors depict various one-time draws. He noted that bright red depicts a draw of the permanent fund earnings reserve account (ERA) beyond the POMV draw, which isn't necessary in this baseline

scenario. He related that the dotted black line depicts the budget before the PFD and the solid black line depicts the budget including the PFD that balances with revenue.

11:41:21 AM

MR. PAINTER, responding to Chair Spohnholz, stated that in FY 22 and FY 23 there is revenue replacement from the American Rescue Plan Act (ARPA), and no ERA draw. He explained that some ARPA revenue replacement was built into the governor's budget and $250 million was built into the legislature's budget in FY 22.

CHAIR SPOHNHOLZ, regarding the baseline traditional revenue, recalled Mr. Painter stating that oil production is expected to be nearly 60,000 barrels more per day in FY 31 as compared to today, yet a drop in revenue is shown. She presumed it is related to the futures market projections on the price of oil.

MR. PAINTER confirmed that that is correct. He said the current assumption in the futures market is that prices of $100 or so will not last and will go down to $70 or $80, the prices that existed prior to the geopolitical events that are driving them now. Despite increasing production, he explained, the $20-$30 price difference dominates that effect over time.

CHAIR SPOHNHOLZ surmised that with a full statutory dividend and the rest of the assumptions, a fiscal gap of $327 million would occur in FY 25, would peak at $829 million the following year, then would bobble up and down from there forward.

MR. PAINTER confirmed that's correct.

11:43:19 AM

REPRESENTATIVE JOSEPHSON surmised that the reason for reflecting deficit spending after FY 25 is because the need for a draw from the constitutional budget reserve (CBR) and the statutory budget reserve (SBR) meets the definition of deficit spending.

MR. PAINTER confirmed that's correct.

11:43:44 AM

MR. PAINTER, responding to Representative Eastman, clarified that the baseline spending for each fiscal year is delineated across the top of slide 6. These numbers, he explained, are

LFD's spending assumption including the PFD that make up the governor's budget.

REPRESENTATIVE EASTMAN observed the statement on slide 5 that says, "the baseline assumes that all items are funded to their statutory levels beyond FY23." He requested a definition of "all items."

MR. PAINTER responded that it is restricted to items that have been funded in the last decade or so, an example being the oil and gas tax credits. He stated that [it does not include] such things as the senior property tax exemption and the longevity program which are still statutes on the books but have not been funded in the last 20 years and 15 years, respectively.

11:45:33 AM

MR. PAINTER resumed his presentation. He returned to slide 6 and explained that the graph labeled "Budget Reserves" shows the savings balances, with yellow depicting the CBR/SBR and green depicting the realized balance of the ERA. He qualified that the ERA isn't truly a budget reserve but is available with a simple majority vote and is the source of the percent of market value (POMV) draw.

MR. PAINTER addressed slide 7, "HW&M Committee Scenarios," which read as follows [original punctuation provided]:

> **Committee Chair asked for modeling with the following assumptions that differ from LFD's baseline:**
>
> - Capital budget baseline of $250 million (instead of $195.4 million)
> - Agency operations assume FY23 House budget growing at 2.5% (instead of 2.25%)
> - Assume expiring federal funds are replaced with UGF and PERS healthcare is funded after FY23
> - Varying PFD scenarios: statutory PFD, 50% of POMV, 33% of POMV, 25% of POMV, and HB 260

MR. PAINTER elaborated on slide 7. He stated that the committee's requested assumptions are closer to the House version of the budget, and that the capital budget baseline includes the "infrastructure bill." Regarding the assumption that expiring federal funds are replaced with UGF, he stated that the House budget did that for the Alaska Marine Highway system, but some smaller items are still funded with temporary

federal funds, most notably funding in DOT&PF for highways and primarily for aviation. Regarding the assumption that the Public Employee's Retirement System (PERS) healthcare is funded after FY 23, he related that the Alaska Retirement Management (ARM) Board chose not to fund those contributions in FY 23, but the assumption is that it would be funded after FY 23.

11:47:37 AM

REPRESENTATIVE JOSEPHSON asked whether the calculations in LFD's baseline treated the suspension of PERS healthcare funding as perpetual.

MR. PAINTER answered that the governor's 10-year plan assumes PERS healthcare is unfunded. He noted that when making its decision, the ARM Board made it clear that it would reevaluate its decision year-by-year, so LFD's baseline does assume it is funded in future years, which causes the budget to jump a little bit next year. He further noted that PERS healthcare is included in LFD's baseline because to not fund it anymore is viewed by LFD as a policy change.

REPRESENTATIVE JOSEPHSON recalled it was mostly healthcare that caused the problem with the liability on Tiers I, II, and III. But now for reasons he doesn't fully understand, he related, the ARM Board has said "no, that trust is good, the other trusts aren't as good." He surmised the governor's budget is assuming that the assets in the healthcare trust are sufficient to meet every medical need for 10 years for retirees.

MR. PAINTER confirmed that that is the governor's assumption. He said an actuarial analysis of that scenario was run by the ARM Board and it showed that based on their current assumptions the healthcare funds would remain at over 100 percent funded. An experience study is currently being worked on, he continued, which may shift that. He noted that the Senate Finance Committee's current operating budget committee substitute (CS) directs the amount that would have gone to the healthcare system into the pension system. So, he continued, instead of taking that decision not to fund as a savings, the committee redirected it into the underfunded side and kept the total funding flat. While that is another way it could be handled, he pointed out, the governor said if it isn't necessary and so the payment won't be made.

11:50:21 AM

MR. PAINTER resumed his presentation. He moved to slide 8, "House Budget," which read as follows [original punctuation provided]:

> The budget passed out of the House has significant changes from the Governor's amended budget, including:
>
> - $60m FY22 supplemental appropriation to oil and gas tax credit fund.
> - $1,215m for Forward-Funding K-12 in FY23. LFD modeling assumes this funding is not reduced to fill deficits.
> - Swapped $59m Marine Highway funding from federal to UGF
> - Added $27m UGF to offset state agencies' increased fuel costs
> - Added $57 million in K-12 funding, conditional on no legislation increasing the BSA passing

MR. PAINTER elaborated that the largest increase in the House budget is the one-time $1.2 billion forward-funding of K-12 in the FY 23 budget. He advised that while it counts as spending it is not increased spending, but functionally more like a type of savings. He pointed out that the modeling in these scenarios for this committee assumed that this forward-funding is not drawn from reduced future deficits. However, he continued, the Senate Finance Committee asked that the forward-funding be used as a deficit filler, so that different assumption was provided in LFD's presentation to that committee. Regarding the Alaska Marine Highway System (AMHS), he noted that the House budget keeps the UGF level flat when the temporary federal funding goes away. Regarding the House budget increase of $27 million to offset state agencies' increased fuel costs, he stated that it would scale up or down based on the price of oil. He explained that in LDF's budget reports, LFD gives it the full possible value of $27 million, which wouldn't be triggered unless prices were $125 a barrel. At the forecast price of $101, he added, that would go down to about $15 million because it is worth $500,000 per dollar above $70 a barrel.

MR. PAINTER continued to slide 9, "Comparison of House Ways & Means Committee Scenario to LFD Baseline." He explained that the large difference in FY 23 between the baseline and the committee's scenario is mainly the $1.2 billion in forward-funding K-12. Starting in FY 24, he said, the difference is an increase of $200-$300 million for the first few years, which is

due to the higher starting point with K-12 and AMHS, leading to compounding on a slightly larger budget.

11:54:12 AM

CHAIR SPOHNHOLZ offered her understanding that the obligation to the oil and gas tax credit fund goes away in future years.

MR. PAINTER confirmed that that's correct. He said the oil and gas tax credit is in LFD's baseline because it is a statutory item and is in the governor's budget. He pointed out that in both budgets, FY 23 spikes and then shrinks in FY 24 and FY 25. That's mainly due to the tax credits, he explained, because paying $349 million this year leaves $123 million in FY 24, and then when it goes away the budget stairsteps down a bit over the next couple years.

11:55:11 AM

CONOR BELL, Fiscal Analyst, Legislative Finance Division (LFD), Legislative Agencies and Offices, took over the presentation at slide 10, "Revenue Assumptions." He said the committee chair requested that each scenario be shown under the Department of Revenue's (DOR's) current forecast, spring 2022, which is the same as LFD's baseline, and the two prior official forecasts, fall 2021 and spring 2021. He pointed out that the first several years in the spring 2022 forecast are significantly higher than the other two scenarios, but that it then evens out so by the end of the period it is only a few hundred million dollars higher than the other two scenarios. Mr. Bell explained that the fall 2021 forecast starts out significantly higher than the spring 2021 forecast because DOR changed its methodology between those two. In the spring 2021 forecast, he said, DOR grew the forecast beyond FY 23 with inflation, which is why steady growth is seen [in the Alaska North Slope (ANS) price] to get to $73 a barrel in FY 31. In the fall 2021 forecast, he continued, DOR had changed its methodology to follow the futures market for as long as there was available data: the ANS prices start higher and slowly decline to $65 a barrel in FY 29, then in FY 30 when no futures data is available DOR adjusted for inflation and the price grew to $67 in FY 30 and $68 in FY 31. That is the long way of saying, he added, that the revenues are lowest for the first several years in the spring 2021 forecast and the revenues are lowest in the out years in the fall 2021 forecast.

11:57:40 AM

CHAIR SPOHNHOLZ explained that she requested these three forecast models to illustrate the volatility of oil. She stated it is currently good news for Alaska's revenue but not good news for international security given the war between Russia and Ukraine. Over the last 12 months, she noted, the volatility in expected revenue from oil in FY 23 is a massive difference of $3 billion. This underscores how risky it is to use any one moment in time as the position from which fiscal situations are made that can impact the state for another decade, she said.

MR. BELL resumed his presentation and addressed slide 11, "Oil Prices, FY22 to Date." The graph shows the actual oil prices observed so far this fiscal year, he explained, with the brackets on the right side of the graph delineating the period of days that were used for DOR's spring 2022 forecast. He noted that this slide hasn't been updated in several days and oil is somewhere above $100 a barrel.

CHAIR SPOHNHOLZ clarified that when the data for the spring 2022 forecast was pulled, the price of oil was $115 to $120-plus, but currently is down to about $101. The difference between $115 and $101 is significant when it comes to Alaska's actual revenue, she advised.

MR. BELL confirmed Chair Spohnholz' clarification. He said it is correct that LFD's spot prices for oil are somewhat down from the period the futures were pulled. But, he continued, looking at FY 23 and beyond, the futures markets have looked similar to how they were when DOR pulled that forecast.

MR. PAINTER noted the graph on slide 11 shows prices of $70-$80 earlier in the fiscal year, but when tensions ramped up in the new year prices climbed to about $80 a barrel. He advised that right now the market is assuming this ramp up will not last and when it's over oil is expected to land where it was in August or September [2021]. Although, he allowed, that doesn't mean that that's an accurate assumption.

CHAIR SPOHNHOLZ remarked that the million-dollar question is how long the price of oil will stay high given that no one knows how long the conflict between Russian and Ukraine is going to last.

12:02:17 PM

MR. BELL returned to his presentation and noted that Scenario 1 uses the statutory PFD under all three revenue forecast models.

He displayed slide 12, "Scenario 1: Statutory PFD DOR Spring 2022 FC," and said the statutory PFD would be roughly $4,200 per person in FY 23, growing to about $4,300 per person in FY 31. The nearly $750 million deficit in FY 23, he stated, is largely because of the $1.2 billion in K-12 forward-funding, and the budget is roughly balanced in FY 24. Draws from the CBR and SBR accounts are seen in FY 23, he pointed out, and those draws fill the deficits until FY 27 when overdraws from the earnings reserve of the permanent fund start to be seen. He reported that the realized ERA balance falls to about $13 billion by the end of the period.

12:04:16 PM

CHAIR SPOHNHOLZ inquired about the amount of ARPA revenue replacement in FY 23.

MR. BELL offered his belief that the House budget uses $300 million of ARPA revenue replacement in FY 23.

MR. PAINTER confirmed $300 million is in the House budget.

CHAIR SPOHNHOLZ surmised the FY 23 fiscal gap would be above $1 billion if it weren't for the largess of the federal government.

MR. BELL answered that the $750 million deficit is the pre-transfer deficit, so the $300 million of ARPA revenue replacement fills part of that $750 million deficit. Responding further to Chair Spohnholz, he confirmed it would be a deficit of about $400 million after accounting for the ARPA revenue replacement from the federal government.

12:05:26 PM

MR. BELL resumed his presentation and moved to slide 13, "Scenario 1: Statutory PFD DOR Fall 2021 FC." He related that the fall 2021 forecast has significantly lower prices in the early years starting at $71 a barrel in FY 23, resulting in a $3.1 billion deficit. That deficit, he continued, is sufficient to require use of the entirety of the existing CBR and SBR balances and require an overdraw of the earnings reserve account in the first year, with ERA overdraws continuing throughout the period of about $1.4-$1.5 billion. He noted that the realized ERA balance steadily declines to below $5 billion in FY 31.

MR. BELL proceeded to slide 14, "Scenario 1: Statutory PFD DOR Spring 2021 FC." He said the [spring 2021 forecast] assumes an

oil price of $62 a barrel in FY 23, growing steadily with inflation up to $72 per barrel in FY 31. He pointed out that the FY 31 revenue is only about $200 million lower than what is seen in this spring's forecast. He related that: ERA overdraws are required in FY 23, deficits in the first several years are significantly bigger than the prior scenario, the FY 23 deficit is $3.8 billion, then deficits of about $1.8-$2.0 billion in the next couple years, and then deficits of about $1.4-$1.3 billion in the out years. He further related that the ERA declines to about $3 billion by the end of the period. The effective POMV draw rates, he specified, are significantly over the 5 percent set in statute.

12:08:00 PM

REPRESENTATIVE EASTMAN asked for a restatement of the significance of the effective POMV draw rate switching from FY 26 to FY 27.

MR. BELL responded that it isn't just pulling 6.6 percent of the permanent fund's value in FY 23, but rather what percentage of the lag five-year average fund balance would be needed to fill this deficit under the current POMV statute.

MR. PAINTER stated that the difference between FY 26 and FY 27, and why that declines, relates to the assumption that the statutory dividend amount will decline in that period. That is based on a five-year average of statutory net income, he explained, and the permanent fund is expecting, and has so far received, higher statutory net income in FY 22 from realized gains from the previous year, which was a record year. Since that will factor into the PFD average for the next five years in the statutory PFD, he advised, it will inflate that statutory PFD. Starting in FY 27, he continued, that will go out of the average so the statutory PFD will shrink and that's what causes the deficits to decrease by $400 million between those years.

12:09:55 PM

MR. BELL next discussed Scenario 2, which uses a PFD assumption of 50 percent of the POMV draw under each of the three different forecast models. He displayed slide 15, "Scenario 2: 50% of POMV PFD DOR Spring 2022 FC." He related that the 50 percent POMV draw in this scenario takes half of the POMV draw from the permanent fund and directs it toward the PFD, leading to a PFD of about $2,500-$2,600 per person in FY 23, growing to about $3,300 per person in FY 30 and FY 31. He specified there would

be $300 million in surplus in FY 23, about $850 million in surplus in FY 24, and deficits starting in FY 26 that range from $300-$500 million over the rest of the period as budgets grow and revenue declines. He noted the CBR balance would be sufficient to cover all those deficits under these assumptions, particularly because there are strong surpluses in the first few years. He there would be no ERA overdraws in this scenario.

MR. BELL spoke to slide 16, "Scenario 2: 50% of POMV PFD DOR Fall 2021 FC." He pointed out that the fall 2021 forecast uses a lower oil price in FY 23 than does the spring 2022 forecast. He said this results in a deficit of $2.1 billion in FY 23, and then deficits ranging from $600-$900 million for all the years after that. He noted that CBR draws are used to fill the FY 23 and FY 24 deficits along with a very small ERA overdraw in FY 24 because the CBR and SBR aren't quite sufficient. In the remaining years, he continued, the ERA overdraws are for the entire deficit amounts of $600-$900 million a year. He said there is a steady decline in the budget reserves, going down to about $12 billion for the realized earnings reserve account.

MR. BELL turned to slide 17, "Scenario 2: 50% of POMV PFD DOR Spring 2021 FC." He related that this scenario would provide a PFD of roughly $2,600 in FY 23. He said there is a deficit of $2.7 billion in FY 23, a deficit of $1.1 billion in FY 24, and deficits ranging from $700-$600 million in the out years. The CBR draw fills the FY 23 deficit, he noted, but by FY 24 ERA overdraws are needed for the entire amounts of those deficits, resulting in a declining earnings reserve account balance.

12:13:04 PM

MR. BELL next discussed Scenario 3, which uses a PFD assumption of 33 percent of the POMV draw under each of the three different forecast models. He displayed slide 18, "Scenario 3: 33% of POMV PFD DOR Spring 2022 FC." He said the PFD would be roughly $1,700 per person in FY 23, growing to a dividend of $2,200 per person in FY 30 and FY 31. This would lead to a $900 million surplus in FY 23, he stated, and surpluses generally throughout the period. He noted that the budget reserves combined would grow to about $28 billion and the CBR and SBR combined would approach $10 billion by the end of the period. There are no deficit draws, he added, since there are surpluses throughout the period.

MR. BELL showed slide 19, "Scenario 3: 33% of POMV PFD DOR Fall 2021 FC." He noted that the fall 2021 forecast shows deficits

of $1.5 billion in FY 23 and the budget is much higher in FY 23 due to the $1.2 billion of K-12 forward-funding. For the next several years, he continued, there are roughly balanced budgets before small deficits of about $100 million emerge in the final few years as the budget grows and revenue slightly declines. He said the CBR balance remains above $500 million so no overdraw from the ERA is needed.

MR. BELL continued to slide 20, "Scenario 3: 33% of POMV PFD DOR Spring 2021 FC." He stated that a deficit of $2.1 billion would be seen in FY 23 and a deficit of $500 million in FY 24. He said FY 25 and FY 26 would require very small ERA overdraws of about $30-$50 million because the CBR runs out. As the revenue projection improves towards the end of the period, surpluses are seen towards the end, he noted.

MR. BELL next discussed Scenario 4, which uses a PFD assumption of 25 percent of the POMV draw under each of the three different forecast models. He displayed slide 21, "Scenario 4: 25% of POMV PFD DOR Spring 2022 FC." He stated that the PFD would be roughly $1,200-$1,300 per person in FY 23, growing to about $1,600 in FY 29-31. He said large surpluses would be seen throughout the period, over $1 billion for the first several years and then in the high hundreds of millions of dollars in the later years. He specified that the total budget reserves would grow to over $30 billion under these assumptions.

MR. BELL continued to slide 22, "Scenario 4: 25% of POMV PFD DOR Fall 2021 FC." He said there would be a deficit of $1.2 billion in FY 23 and then for the remainder of the period there would be small surpluses in the hundreds of millions. He advised that the CBR/SBR balances would be sufficient to fill the $1.2 billion deficit in FY 23 and no ERA overdraws would be required.

12:17:28 PM

REPRESENTATIVE JOSEPHSON inquired about the reason for deficit spending in FY 23 as depicted on slide 22.

MR. BELL replied that the FY 23 deficit is attributed to the $1.2 billion of K-12 forward-funding and the higher oil tax credit payment.

MR. BELL returned to his presentation and proceeded to slide 23, "Scenario 4: 25% of POMV PFD DOR Spring 2021 FC." He noted that under this scenario oil is at $62 per barrel in FY 23, growing to $73 in FY 31. He said a deficit of $1.9 billion would occur

in FY 23 and in FY 24 a deficit of $220 million would occur, after which surpluses would occur for the remainder of the period since the revenue projection steadily increases under this older forecast. He advised that the CBR/SBR balances would be sufficient to cover the deficits in this model, so there would be no ERA overdraws with these assumptions.

12:19:36 PM

MR. BELL next discussed Scenario 5, which uses the assumption of HB 260 under each of the three different forecast models. He explained that HB 260 would base the permanent fund dividend amount on the five-year average of the difference between appropriations and revenues. He related that in FY 23 all three models under Scenario 5 would have a PFD of roughly $1,100 [per person] because it's a lagged prior appropriation.

MR. BELL turned to slide 24, "Scenario 5: HB 260 DOR Spring 2022 FC." He reported that under the spring 2022 forecast, the PFDs in FY 26 would be about $2,800 per person, growing to about $3,200 in FY 28 and FY 29. He said large surpluses would be seen in the first several years and then deficits of $300-$500 million from FY 27 to FY 30. He explained that this is due to taking five-year average calculations; the big surpluses in a few prior years lead to a larger PFD amount, but that starts to balance out by FY 31 as the years contributing to the average shift to those lower revenue years. There would be no ERA overdraws, he noted, and by the end of the period the CBR/SBR combined balance would be over $5 billion.

CHAIR SPOHNHOLZ asked what the dividend would be in FY 31.

MR. BELL responded that the FY 31 dividend would be roughly $2,900 per person in this scenario.

CHAIR SPOHNHOLZ said Scenario 5 is the most complicated scenario because of the way the dividend formula is proposed in HB 260.

MR. BELL resumed his presentation and moved to slide 25, "Scenario 5: HB 260 DOR Fall 2021 FC." He noted that the fall 2021 forecast has oil at $71 per barrel in FY 23, declining gradually to $65 in FY 29. He said a $1.2 billion deficit would be seen in FY 23 due to large one-time budget items that aren't in the FY 24 baseline. He stated that small deficits and small surpluses would occur through the remainder of the period. He related that the CBR and SBR would be sufficient to fill the

deficits and would have a balance of about $3 billion by the end of the period, and no ERA overdraws would be required.

MR. BELL addressed slide 26, Scenario 5: HB 260 DOR Spring 2021 FC." He stated that the spring 2021 forecast has oil at $62 per barrel in FY 23, growing to $73 in FY 31. He said deficits are seen in FY 23 and FY 24 which are filled by CBR and SBR draws. Over the remainder of the period, he related, surpluses are seen and the CBR/SBR balance grows to about $4 billion. The FY 31 and FY 30 PFDs are about $2,000 per person, he further related.

12:24:30 PM

MR. BELL, responding to Chair Spohnholz, confirmed that for all three models in Scenario 5 the FY 23 permanent fund dividend would be $1,100 per person. He explained that this is because it is taking prior year data, so that PFD amount would be the same - $1,100.

MR. BELL, again responding to Chair Spohnholz, stated that under the spring 2021 forecast in Scenario 5, the FY 26 PFD would be roughly $1,200 per person, the FY 27 PFD would be $1,700 per person, and the FY 28 PFD would be $1,800 per person.

MR. BELL, further responding to Chair Spohnholz, related that for HB 260 under the fall 2021 forecast, the FY 23 PFD would be $1,100 per person and the FY 24 dividend would be $1,900/$2,000 per person. He explained that the FY 24 PFD of roughly $1,900 would be the same for all the models because it is taking the lagged five-year average. He said the FY 26 dividend would be $1,500 per person, growing to $2,100 per person in FY 27, and then fluctuating and getting to $2,000 per person in FY 31.

CHAIR SPOHNHOLZ thanked Mr. Painter and Mr. Bell for their time.

HB 260-PFD: 50/50 POMV SPLIT

12:26:56 PM

CHAIR SPOHNHOLZ announced that the final order of business would be HOUSE BILL NO. 260, "An Act relating to use of income of the Alaska permanent fund; relating to the amount of the permanent fund dividend; relating to the duties of the commissioner of revenue; and providing for an effective date."

12:27:20 PM

REPRESENTATIVE LIZ SNYDER, Alaska State Legislature, prime sponsor of HB 260, provided a review of the bill's provisions. She stated that HB 260 is designed to reflect the diverse priorities that are heard when talking about the PFD and the budget as a whole. She said the bill is also designed to meet, or be consistent with, all the bullet points that came out of the Fiscal [Policy] Working Group. She specified that HB 260 would require the 5 percent POMV draw, would begin with flat funding the budget based on a five-year moving average, and the remaining funds would be directed towards a PFD with a 50 percent split as the attainable target. So, she continued, it could be called a conditional PFD 50/50 split or an aspirational 50/50 split. Representative Snyder advised that nothing in the bill would direct issues around revenue generation or cuts, but if the legislature decided to do either of those, it would affect the resulting calculations and affect the five-year moving average. She related that using the moving five-year average would reduce the ability for the PFD to be weaponized because any change in the PFD in a given year is not reflected in the resulting budget until the following year when it is incorporated into the five-year moving average.

CHAIR SPOHNHOLZ opened public testimony on HB 260.

12:29:43 PM

ED MARTIN testified in opposition to HB 260. He stated that something is wrong when the only growing revenue to the State of Alaska is from the permanent fund and its investments. He maintained that the state would be much farther ahead had traditional revenue instead been coming in, plus there would then not be the contentious issue of whether the legislature should or should not follow the law and pay the full statutory formula. He said the state has failed miserably by not selecting the lands still owed to it and passing those lands on for settlement. He urged that HB 260 not be passed and to pay the permanent fund dividend [according to] original statute.

12:33:10 PM

ADAM HYKES testified in opposition to HB 260. He said whenever he sees a new bill about the permanent fund dividend that changes the statutory words "corporation shall transfer" to the words "legislature shall appropriate" he knows the bill follows the agenda of reducing the people's PFD in favor of filling the budget gaps where legislators have failed to do so. He said he disagrees with the assumption that the holes in the state budget

require taking money out of the pockets of Alaskans. Fund education as the constitution demands, he stated, but the PFD is falsely roped into this conversation time and time again. He argued that right now there is even less of a reason to conflate these two issues given the recent spike in oil prices and therefore less of a budget gap to fill. He maintained it is the legislature's job to figure out how to fill the gaps in the budget while preserving the traditional PFD.

12:35:25 PM

REPRESENTATIVE SPOHNHOLZ closed public testimony on HB 260 after ascertaining that no one else wished to testify.

[HB 260 was held over.]

12:35:38 PM

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 12:36 p.m.